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BRITISH OIL POLICY
IN THE MIDDLE EAST

1919 - 1932

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FOREWORD

The aim of this thesis is to explain and analyse Britain's policy with regard to oil and the control of oil sources in the Middle East during the period 1919 to 1932.

A great many books, articles, and some theses have been written on Middle Eastern oil, dealing with various aspects of the subject, but none has specifically aimed to explain in detail British oil policy between 1919 and 1932. The nearest approach to it is probably to be found in B. Shwadran's "The Middle East, Oil and the Great Powers" (New York, 1955), which was written, however, from an American point of view, and without access to British Government archives. It is hoped, therefore, that this present work may help to fill this gap and, also, that it may help to dispel the many inaccurate (and often wildly fanciful) notions about Britain's Middle Eastern oil policy which have long been current.

The term "Middle East" in this context includes Persia, Iraq, Syria, Lebanon, Palestine, Transjordan, the Arabian Peninsula, and Egypt, but most attention has been given to Iraq, since it was on Iraq that the main international oil controversies of the period centred. The Persian oil situation has been discussed in some detail, but no attempt at an exhaustive account has been made, since there is already a great deal of well-informed literature written on the subject.

It has been found necessary to restrict the scope of the

thesis to the main theme of British oil policy, avoiding any detailed treatment of the wider issues with which British oil policy was interwoven. Thus the purely diplomatic aspects of the many issues with which the oil questions were involved are not covered in any detail. In particular, no systematic attempt has been made to place Britain's oil policy in the context of its foreign policy as a whole, either in the Middle East or elsewhere, nor has any attempt been made to examine in full the oil policies (or general strategies in the Middle East) of countries other than Britain.

There are several reasons for these limitations of scope. Firstly, the practical reason that, for reasons of space, no single thesis could deal adequately with all the diplomatic and other issues which were connected with British oil policy during the period under consideration. Secondly, adequate treatment of these peripheral issues would necessitate a full programme of research into the archives of the several different countries concerned, in particular those of the French Government and of the United States Government. Apart from the fact that such a programme of work would hardly be practicable in the time available, there is the added consideration that, in particular, French Government archives for the period are still closed. Of relevance to this aspect of the matter, too, is the fact that published works which might be expected to yield much information on, for example, French Middle Eastern oil policy, simply do not contain sufficient relevant information to fill satisfactorily

the gap left by the non-availability of French Government archives (see Bibliography).

A third reason for restricting the scope of the thesis is the need for lucidity. In order to keep what is itself a highly complicated theme reasonably clear, much pruning of materials not absolutely central to the main theme has had to be done, sometimes with the result that issues of great importance in themselves, but having only an indirect link with the central theme, have been given only scant treatment.

Initially it was hoped that limitation of coverage to the central theme of Britain's Middle Eastern oil policy would enable an adequate treatment of the whole inter-war period to be undertaken. However, this proved to be too large an undertaking, and a terminal date prior to 1939 had therefore to be chosen.

The year 1932 was selected as the most suitable terminal date for several reasons. Iraq had concluded negotiations only the year before for the revision of the Iraq Petroleum Company's concession, and in 1932 it granted a new concession to the B.O.D. Company.¹ This marked the end of the main Anglo-American dispute on the "Open Door" in Iraq, and Anglo-American oil rivalry henceforth was to be directed to other areas of the Middle East.

In Persia the year 1932 saw the long-smouldering dispute between the Persian Government and the Anglo-Persian Oil Company

1. British Oil Development Company, but its registered name was B.O.D. Limited

brought to a head, the result being the conclusion of an agreement satisfactory both to the two principal disputants and to the British Government. From the conclusion of that agreement a new phase in the history of Persian Oil began, although, it is true, the amicable relations thus established did not prove to be permanent.

On May 31st 1932 oil was struck in quantity on Bahrein island. This event encouraged the oil companies to consider seriously the possibility that the whole of the Arabian east coast might contain significant deposits of marketable oil. In the resultant struggle for concessions the Americans came off best, and their entry into the Middle East oil situation, hitherto restricted by their need to compromise in one form or another with British interests, began in earnest.

Material for this work has been drawn from diverse sources, but by far the most important of these are Foreign Office papers in the Public Record Office, which are a mine of information. In addition to the Foreign Office papers, other British Government archives have also been of use, especially Cabinet, Admiralty, Treasury, and Petroleum Department documents.

British Government archives, however, tell only one side of the story in any detail, usually giving only an incomplete view of other aspects. For this reason it had been hoped to gain access to the archives of the oil companies concerned, but this has not proved possible. Thus the views attributed to the oil companies have more often to be drawn from inference than from

direct evidence. Another gap in the evidence for this study has been created by the destruction of the personal records of one of the key figures of the period, Sir John Cadman.

Certain classes of published American documents have been found useful in this study, and it has been possible to obtain copies of State Department files on microfilm (see Bibliography), so that the views of the American Government on the various issues are reasonably clear. However, as mentioned earlier, while the views of the French Government can be determined well enough for practical purposes from correspondence with the British Foreign Office, the process by which French oil policy was arrived at remains somewhat obscure, owing to the fact that French Government archives are still closed. However, the restrictive scope of this thesis renders such a limitation comparatively unimportant.

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The map at page 362 and the numerous quotations from Crown-copyright records in the Public Record Office appear by permission of the Controller of H.M. Stationery Office.

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Quotations from a thesis by Dr. M. Kent appear by kind permission of the author.

Thanks are due to Mr. E.M. Robertson (now at the London School of Economics) who, knowing of my background in industry, ¹ made the initial suggestion which prompted the writing of this thesis. A great debt is owed to Professor V.G. Kiernan for much sound advice and friendly criticism on various aspects of this study. Thanks are also due to Professor S.B. Saul and Dr. P. Addison for comment and criticism, and to Mr. Elwell Sutton for reading and commenting on an early draft of Chapter 12.

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1. I was a member of the technical staff of a rubber-manufacturing company for 15 years.

A NOTE ON TERMS, ABBREVIATIONS ETC.

The term "kerosine" has been used throughout this study for the product which in Britain is often termed "paraffin" or "paraffin oil". This is to avoid possible confusion, since the term "paraffin" is sometimes used (in some countries) to denote "paraffin wax".

The terms "gasoline" and "petrol" are both used in this study for what is essentially the same thing. The term "motor spirit" is also used. In discussing, for example, American refining trends, it seems appropriate to use the term "gasoline", but hardly so when referring to, for example, the War Office's plans for petrol reserves.

ROYAL DUTCH-SHELL

The Royal Dutch-Shell Company, formed in 1907 by the merger of the Shell Transport and Trading Company (a British Company) and the Royal Dutch Company (which thereby owned 60% of the shares of the combination), was usually referred to, in both oil industry and political circles, simply as "Shell". This shortened form was also often used to refer to a Royal Dutch-Shell subsidiary, such as, for example, the Anglo-Saxon Petroleum Company. In this study no pedantic attempt to depart from this usage has been made, although, of course, the more specific name has been used in all cases where the more precise naming of the company seemed called for.

STANDARD OIL

In 1911 the Standard Oil Trust of John D. Rockefeller was officially broken up into several independent concerns, although it was some years before the policies of all the constituent companies became fully independent of each other. In the 1920's British officials usually referred to the main company, Standard Oil of New Jersey, simply as "Standard Oil" - but, they also used the same term to indicate the whole range of companies which had formerly belonged to the pre-1911 Trust (since, as they saw it, these companies worked in concert). In this study, despite this confusion, an attempt has been made wherever possible to name the exact company referred to.

MAIN ABBREVIATIONS USED IN THE FOOTNOTES

D.B.F.P.	Documents on British Foreign Policy
F.R.U.S.	Foreign Relations of the United States
R.I.I.A.	Royal Institute of International Affairs
A.P.O.C.	Anglo-Persian Oil Company
T.P.C.	Turkish Petroleum Company
I.P.C.	Iraq Petroleum Company.

FOOTNOTE REFERENCES TO BRITISH GOVERNMENT DOCUMENTS

The full reference: "Great Britain, Public Record Office, Foreign Office (etc.)" is given only on the first occasion that material from a particular department is cited. Thereafter the appearance of the following letters in the numbered reference indicates the source of the document:

ADM	Admiralty
Air	Air Ministry
CAB	Cabinet Office
CO	Colonial Office
FO	Foreign Office
POWER	Files of the Petroleum Department and Petroleum Executive, at one time housed in the Ministry of Power, now in the Department of Trade and Industry.
T	Treasury
WO	War Office.

ABSTRACT

Oil became of importance to Britain with the adoption of oil fuel as the sole fuel for the "Queen Elizabeth" battleships, just before the First World War. Nevertheless, oil's importance was not fully realized by the British Government until the events of that war had demonstrated just how dependent on oil products the modern nation had become.

By 1919 the Royal Navy was primarily oil-fuelled. The Army was moving, albeit slowly, towards mechanization, and the Royal Air Force was in being. All Britain's armed forces thus needed oil products to keep them in action.

Oil was also infiltrating and becoming part of the whole British economy. If Britain was to maintain her status as an industrial and military power and was to be able to protect her far-flung Empire in the new mechanical age, she had to have oil products.

The British Empire seemed almost devoid of oil resources, and Britain therefore had to depend on imports from foreign territory for the bulk of her supplies. This situation, however, was held to be politically and strategically disadvantageous. In consequence, the British Government turned to consideration of how best to reduce this dependence, and attention then became focussed on one area where Britain exerted a degree of influence and where oil had not only been discovered, but where even greater quantities were suspected of being discoverable - the Middle East.

In 1914, following the decision on the "Queen Elizabeth"

battleships, the British Government had taken a controlling interest in the Anglo-Persian Oil Company, which company had an exclusive concession for oil production in almost the whole of Persia. Retention of that controlling interest was to be an extremely important facet of the British Government's oil policy throughout the inter-war years. In 1914, also, the British Government secured the entry of the Anglo-Persian Oil Company into the Turkish Petroleum Company, which then secured a promise of an oil concession in Mesopotamia from the Turkish Grand Vizier.

The collapse of the Ottoman Empire in 1918 then changed the whole Middle Eastern situation, and Britain ended the war determined to control the whole of Mesopotamia, Sykes-Picot Agreement with France notwithstanding. This determination, however, was by no means solely due to Mesopotamia's supposedly rich oil deposits, for broader strategic and political considerations alone were sufficient motivation for Britain's policy. Control of Mesopotamia did, nevertheless, offer the advantage of giving to Britain the main voice in the disposition of whatever oil did actually exist there.

The British Government's post-war Mesopotamian oil policy was very vague and confused, pulled first one way, then another, as a result of the conflict between the desire to secure for British interests the lion's share of any oil concession granted and the need to conciliate the other Powers who desired that their nationals be allowed to participate and share the spoils of war. Faced with the possibility of a Franco-American alliance at the Peace Conference,

the British Government was constrained to offer a quarter share in the Mesopotamian oil concession to France. Later, faced with determined American opposition to British policy with regard to mandates, the British Government was forced to put pressure on the oil interests already concerned in the Turkish Petroleum Company to make room for American interests in the share-out of Mesopotamian oil.

Despite certain waverings in 1920, one main pillar of British post-war oil policy was support of the Turkish Petroleum Company, first against the American attack, and then vis-à-vis Iraq over the matter of the actual granting of an oil concession. Faced with the task of supporting a company whose international composition and proclivity for internal disputes at times made support extremely delicate and difficult, the British Government nevertheless succeeded in steering concession negotiations to a conclusion which, though not entirely satisfactory, nevertheless did not entail too much of a sacrifice of the interests of any of the parties concerned. Moreover, the British Government also ensured that the concession thus granted was of value in that the Mosul vilayet was secured to Iraq, despite Turkish clamour. With regard to Mosul, however, it should be noted that other considerations than oil were of prime importance.

By July 1928, when the American interests formally entered into the Turkish Petroleum Company, the British Government could congratulate itself on having succeeded fairly well with its oil policy in Iraq, but it then had to cope with further problems which, to some extent, were of its own making. The British wanted the

proposed pipeline from the Iraq oilfields to go to Haifa, but were unwilling to help to finance a railway project which would have ensured such an alignment. Instead, they sought to ensure a Haifa alignment for the pipeline by other means, including the exertion of influence on the Iraq Petroleum Company. The French, who wanted the pipeline to debouch at a French-controlled port, not Haifa, took grave objection to what they considered to be the British Government's dubious methods, and the resultant Anglo-French controversy threatened to embitter the whole pattern of Anglo-French relations.

In the end the solution to the problem was found in compromise. By March 1931 the Iraq Petroleum Company had gained control of all the areas of Iraq then thought likely to be oil bearing, and although the British Government had not particularly aimed for this, nevertheless it represented a triumph for that Government's policy.

Meanwhile, in Persia, the British Government had been concerned with the security of the Anglo-Persian Oil Company's oilfields, which were of great importance in the navy's supply schemes, especially those concerned with the possibility of a war with Japan. The fall of the Sheikh of Mohammerah in 1924 was a blow to Britain, but one, however, which did not really matter as long as relations between the Anglo-Persian Oil Company and the Persian Government remained amicable. It was only in the crisis of 1932-33 that the British realized just how defenceless the oilfields really were - and it was only then that the British really took note of the changes wrought in Persia by the coming to power of Reza Shah.

Anglo-American relations in the Middle East had been fairly amicable after British interests had shown some willingness to cooperate with the Americans in 1922-23. They threatened to become somewhat strained, however, in the late 1920's and early 1930's when British exclusionist policies in Bahrein and Kuwait came under attack from the United States Government. Once again, as with Iraq, the British had to compromise rather than risk damage to their relations with the United States.

Compromise was the main feature of Britain's Middle Eastern oil policy up to 1932. After that date, however, when foreign attempts at entry into the Middle Eastern oil situation shifted from Iraq and Persia to the Arabian Peninsula, even compromise was denied to the British. It was then that the American entry into the Middle Eastern oil situation began in earnest.

Until 1932, nevertheless, Britain's Middle Eastern oil policy as a whole can be regarded as having been fairly successful. British interests controlled the oil wells of Persia, had the largest share of Iraqi oil, and wielded some influence in other likely oil-bearing areas of the Middle East. But, against this, long before 1932 Britain had apparently forgotten the lessons of the First World War. Instead of ensuring that the British navy never again became in danger of running short of oil (as it had been in 1917), successive Governments continued to neglect the Royal Navy's oil reserves. By this folly the British Government was in danger of rendering worthless its whole Middle Eastern oil policy.

INTRODUCTION

I. Oil in the Twentieth Century.

During the Twentieth Century oil has become a vitally important source of energy for all industrially developed countries. Its different products are now used extensively as both fuel and lubricants for power units in industry, agriculture, transport by air, sea, road and rail, and as fuel for central heating, driers, and similar installations. In addition there are many other varied applications as solvents, in varnishes, and as a basic raw material for the manufacture of a whole range of chemicals, synthetic rubbers, plastics etc.

Oil's advance in importance and increase of consumption has been largely due to the inherent advantages conferred by the use of its products. Even apart from new applications for which its main rival, coal, was totally unsuitable, such as the aeroplane, oil products have gained from their rivals by reason of their ease of handling,^{1.} cleanliness, greater thermal efficiency, and general versatility. However, it should be noted that, in any case, the increasing industrialization and mechanization throughout the world has itself led to a greater demand for sources of power of all kinds. Nevertheless, oil's growing importance has been emphasised by the fact that it did not merely share in this industrial expansion, but it also succeeded

1. For example, oil fuel has a calorific value of 19,000 British Thermal Units against values for anthracite and bituminous coal of 15,000 B.T.U. and 14,000 B.T.U.
(A.C. Hardy, Modern Marine Engineering, (3 Vols: London, 1948) Vol. I, p.11).

in securing an increasingly larger proportionate share in it and itself helped to accelerate the whole process.

Before the First World War the main sources of power in most countries were coal, the horse and other draught animals, and the physical labours of man himself. During and after the war, oil began to take its place alongside these three and, moreover, it began to make inroads into their traditional provinces. While oil rivalled coal as a source of power in industry and sea transport, and challenged both it and the horse by means of the ubiquitous internal combustion engined vehicle, at the same time it greatly accelerated the trend towards mechanized farming, thereby reducing dependence on both animal and manual labour.

The industrial world's increasing demand for oil has not been without attendant complications, the most serious of which springs from the fact that major oilfields are very unevenly distributed geographically. Apart from Russia and the United States, all the important industrial nations¹ are dependent on imports for the bulk of their oil supplies, while on the other hand many areas in which industrial development is small, or even non-existent, have an abundance of oil for which they have little or no immediate use. This has led to the growth of wealth in countries which have little but oil to offer the world, which in turn has been attended by internal economic and political repercussions. Of even

1. No account is taken of the position of Communist China in this statement (see: Petroleum Information Bureau, Oil - The Far East (London, 1967) pp. 5-6.)

more significance, however, this uneven distribution of oil sources has meant that, from being recognized as a vitally important industrial and strategic raw material, oil has become an international commodity about which nations have been ready to dispute with each other, and, perhaps, even to fight.

In 1900 less than one per cent of Britain's energy demand was met by consumption of oil products. By the mid-nineteen sixties, despite the overall increase in demand, and the advent of nuclear power, oil's share had increased to over a third of the total energy supply. Moreover, such statistics alone do not fully indicate oil's importance, since the different sources of energy, for example coal, hydro-electricity, nuclear power etc., cannot readily be adapted to fulfil the role played by oil and its products. While certain industrial users and, for example, shipowners could conceivably use other sources of energy than oil, there is no prospect at present of motor vehicles or aircraft being able to function entirely without it, notwithstanding certain developments in the electrical field and in nuclear power. In addition, oil is indispensable as a source of chemicals, lubricants etc.

It is only since the Second World War that the consumption of oil products in the United Kingdom has really rocketed, although there had been a steady increase until then.¹ The earlier

1. United Kingdom oil products consumption (inland):-
 1900: 1 million tons. 1913: 2 million tons. 1919: $2\frac{1}{2}$ million tons.
 1938: 9 million tons. 1945: $10\frac{1}{2}$ million tons. 1965: $67\frac{1}{2}$ million tons.
 (A.L.King, "Statistics Relating to the Petroleum Industry, with Special Reference to the United Kingdom," Journal of the Royal Statistical Society, Series A (General) Vol.115 (1952) Part IV, pp.551-552.
 Petroleum Information Bureau, Oil - The United Kingdom (London, 1968), p.7.

period is important, nevertheless, because, apart from its own intrinsic merits as a subject of study, to some extent it set the pattern for future developments. The various uses to which oil products are put today all have their historical roots in the pre-Second World War period, and the main international companies supplying British markets today have their origins in this period. It is true that there have been many great changes in all aspects of the oil world since the Second World War - new oil sources discovered, greatly altered concession terms, large tankers developed, the growth of United Kingdom refining capacity, the United Kingdom's greater proportionate demand for gas, fuel and diesel oils, the development of the Petrochemicals industry, various advances in technology, and, of course, latterly the development of North Sea oil - but a true understanding of the post-1945 picture demands some knowledge of earlier developments.

II. The Importance of Oil to Britain

How important was oil to Britain, and why was it important, in the period before the Second World War? Without answers to these questions it is difficult to understand the part which oil played in British political and strategic thinking.

In the first decade of the Twentieth Century, oil cannot be regarded as having been particularly important in the British Government's eyes, and certainly it did not rank as a specially vital and necessary material whose sources must undoubtedly be

secured. It became important for Britain, however, with its adoption as the sole fuel for the British navy's newest and most powerful battleships, the "Queen Elizabeth" class - an innovation that was eventually to have a considerable influence on British thinking on oil matters.

From at least 1900 one nation - Germany - had given ample reasons for British statesmen to worry about foreign policy and the dangers of remaining isolated.¹ Whereas, of course, Britain had never previously lacked opponents to worry about - in the 1890's, for instance, France and Russia had seemed likely enemies - the difference was that Germany seemed to offer a more formidable challenge on the sea. As the German navy of Tirpitz began to grow into something approaching a challenge to British naval supremacy, British apprehension and fear began to grow also.²

Britain feared that the German navy would advance in power

1. For example, the sending of the Kruger telegram in 1896, the occupation of Kiao-Chau in 1897, anti-British attitudes during the Boer War. In the Middle East the Kaiser's Damascus speech in 1898 seemed to hold a latent threat, while German schemes relating to the Baghdad Railway aroused Britain's suspicions.

2. Admiral Alfred Von Tirpitz (1849 - 1930) was the chief builder of the German High Seas Fleet; he aimed to create a force almost equal in size to the British Grand Fleet.

The German Navy Laws of 1898, and after, laid the foundations for the German naval challenge. There was at first, however, little fear in Britain of any such challenge. Fear did grow slowly, though, and this growth was accelerated by Anglo-German friction over South Africa, and by such events as German refuelling of Russian ships during the Russo-Japanese War of 1904-5.

See J. Steinberg, Yesterday's Deterrent (London 1965)

and technical accomplishment faster than would her own navy, and this fear was reflected in certain strategical readjustments of the Fleet,^{1.} and in the creation of new naval bases such as Rosyth and Scapa Flow, in order to counter the apparent threat from Germany. The fear was also reflected in a drive to improve the efficiency of the navy itself, one result of which was that, eventually, the value of oil fuel as a material capable of giving decided advantages to any navy using it (when compared with navies using coal) was sufficiently recognized to secure its adoption.

The fact that an oil-fuelled vessel could be designed with a superior speed and greater radius of action than could a similar vessel fuelled by coal was an important consideration where the question of combatting the German (coal-fuelled)
^{2.} fleet was concerned. In addition, considerable financial

1. From 1904 British naval strength began to be concentrated in home waters.

2. The German navy began to use oil as an auxiliary fuel with coal in 1910, but were not prepared to go further than this, for reasons connected with price and supply. Report on the German Navy, August 6th 1910, by the British Naval Attaché, in Gooch and Temperley, British Documents on the origins of the War, Vol. VI, p. 509. Tirpitz is reported to have said in the Reichstag that while oil fuel had great advantages, "its high price and dependence on overseas supplies was greatly against its adoption". ("Coal versus oil fuel", The Economist, March 21st 1914, Vol. 78, p.699). See also Tirpitz, My Memoirs (2 vols. London, 1919) Vol. II, pp.568-569.

savings were expected from reduction of stokehold personnel etc. ^{1.}

^{2.}
Spurred on by Admiral Fisher, in 1912 Churchill, who had been appointed First Lord of the Admiralty after the Agadir

^{3.}
Crisis, pushed through the creation of the "Fast Division" of "Queen Elizabeth" battleships - ships dependent for their motive power solely on oil. The navy's first really significant step towards eventual total dependence on oil was thus taken - although not without experiencing some opposition both from

1. A full list of the advantages expected to derive from the use of oil fuel was drawn up by a Royal Commission on Fuel and Engines, appointed in 1912 to enquire into oil fuel supplies and their application in naval vessels.

Great Britain, Public Record Office, Admiralty, Report of the Royal Commission on Fuel and Engines, Vol. I Part II. ADM116/1208.

Note The advantages outlined apply to burning oil fuel under the boilers to raise steam. Internal combustion (diesel) engines were also considered, but there were many technical difficulties about their application in large ships.

2. Admiral Sir John Fisher (1841-1920) was First Sea Lord 1904-10, and October 1914 to May 1915. In 1912 he was appointed Chairman of the Royal Commission on Fuel and Engines. Called the "Oil Maniac" from at least as far back as 1886, he was the navy's staunchest advocate of the use of oil fuel, and kept the idea alive despite numerous setbacks. In 1906 he secured the use of oil fuel in destroyers, and continued to advocate its extensive use in larger vessels.
3. In 1911, when the visit of the German warship "Panther" to Agadir, and the consequent international crisis, revealed the lack of coordination between Admiralty and War Office Staff. Churchill was appointed to remedy the situation.

outside and from within Government circles.^{1.}

Meanwhile, the aeroplane, dependent, of course, on petrol for fuel, had come into being and was demonstrating its potential as a military weapon, albeit to a largely sceptical audience.^{2.} The Army was, rather tardily, beginning to recognize the possibilities of mechanized transport.^{3.} In addition, oil was beginning slowly to take its place in the British economy, as demand for gasoline, fuel oil and lubricating

1. The coal interests, and MP's from coal mining districts, were naturally vociferous in opposition. Lloyd George, Chancellor of the Exchequer, led the opposition to the question of expenditure, since the move over to oil was only part of Admiralty plans to increase the power and armament (and hence expense) of the British navy. See for example Parliamentary Debates (H of C) 5th Ser., Vol. 35 (1912) cols. 1590, 1819; Vol. 55 (1913) cols. 1468-1593; Vol. 63 (1914) cols. 1131-1248, 1642; Vol. 64 (1914) passim. See also "Coal versus oil fuel", The Economist, March 21st, 1914, Vol. 78, pp. 698-700. On opposition within the Cabinet see, for example, Cabinet Circular by David Lloyd George, December 24th 1913 CAB 37/117/97. Prime Minister Asquith's letter to the King, January 29th 1914 CAB 41/35/1.
2. Aircraft were first used in warfare in the Italo-Turkish war of 1911. Its potential as an effective military weapon was not really realized in Britain until after 1914 - indeed, it was not fully realized until long after the First World War had ended!
3. The Secretary of State for War told a meeting of the Committee of Imperial Defence in 1913 "that the Army was deeply interested in the supply of petrol, now that mechanical transport had been adopted for military transport" (Minutes of the Committee of Imperial Defence January 7th 1913 CAB 38/23/2. 121st Meeting.)

oils steadily increased.^{1.}

Nevertheless, the more modern attitude to oil did not become general until the First World War demonstrated the absolute dependence on oil products of modern nations at war. Then oil products were needed to make munitions, to keep supply lorries functioning (and later, tanks), to keep the new aeroplane

1. United Kingdom Petroleum Imports 1860 - 1913.

<u>YEAR</u>	<u>TOTAL (TONS)</u>	<u>KEROSENE</u>	<u>GASOLINE</u>	<u>FUEL & GAS</u> <u>OIL</u>	<u>LUBRICATING</u> <u>OIL</u>
1860	2	?	?	?	?
1880	400,000	90% plus	?	?	?
1900	1,000,000	84%	-	-	16%
1910	1,400,000	44%	14%	25%	17%
1913	2,000,000	31%	20%	32%	14%

(Files of the Petroleum Information Bureau London)

NOTE: These figures must be seen in perspective, however. In 1913, against 2 million tons of oil product imports, Britain produced 287 million tons of coal. Even allowing for considerable coal exports, this was still an overwhelming preponderance in favour of coal as a source of power in Britain. (London and Cambridge Economic Service Key Statistics of the British Economy (London 1964), p.9.)

in the air and, with the advent of the oil-fuelled warship, oil was needed to keep the Royal Navy in action to protect Britain's life line across the seas.

This lesson of 1914-18 was not immediately forgotten when peace came. The Navy was by then primarily oil-fuelled, and would need to ensure its supplies should war ever break out again. The Army was moving, slowly it is true, towards mechanization, and, while Britain neglected her home air defences, aircraft were found to be useful in such places as Arabia and Iraq. All Britain's armed forces would, therefore, need oil products to keep them in action.

There were also other considerations. Industry and merchant shipping were finding advantages in using oil fuel in preference to coal. The diesel engine was finding many applications both on land and on the sea. The private motor car was gaining in popularity, while at the same time motor tractors were beginning to replace the horse on the farm. Civil aviation was born. The Coal Strike of 1926 demonstrated to many that there was an alternative to coal, in gas, diesel and fuel oils, although it is true that there was a general reversion to coal after the Strike.

Oil was thus infiltrating and becoming part of the whole British economy. A Government which ignored this fact did so at its peril, for even if, as yet, Coal was still very much King, Oil was nevertheless a Prince who could neither be banished nor ignored.

Britain had to have oil products if she was to maintain her status as an industrial and military power and was to be able to protect her far-flung Empire in the new mechanical age. It would have been very useful if she could have found oil in Britain itself,

or at least in her Empire. But it was not to be. The exigencies of the First World War led to Government interest in prospecting for indigenous oil in Britain, but by 1922, when interest began to wane, only one well, at Hardstoft, with a production of one ton per day, was the result. Although interest revived in the 1930's, by 1939^{1.} Britain's indigenous production was still of no account. Scottish shale oil production, laborious and uneconomic as it was, provided no real alternative supply, reaching an all-time peak of over a quarter of a million tons in 1913, after which it slowly fell to half^{2.} that amount in 1938. The extraction of oil from coal received some attention from the British Government, particularly in the late 1920's and 1930's, but despite some technical success it did not prove itself capable of being developed as a viable economic proposition, not even as a reasonable stand-by for wartime emergencies.^{3.} Alcohol was of very limited use as a substitute for petrol.^{4.}

As for the Empire, it, too, seemed almost devoid of petroleum resources.^{5.} Burma had produced some oil since the 1880's, but none

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1. Institute of Petroleum, The Petroleum Industry in the United Kingdom (London, 1966) pp.7-11.
 2. Ibid. p.14.
 3. Great Britain, Parliament, Parliamentary Papers (House of Commons) 1937-1938 (Cmd 5665) xii, 439. "Report of the Committee of Imperial Defence Subcommittee on Oil from Coal", pp.15-44, 61. (German developments were pushed ahead largely because Hitler saw no real alternative, and the economics of the processes were regarded as being of minor importance).
 4. A.E. Dunstan (ed.) The Science of Petroleum (6 Vols: London, 1938-53) Vol.IV, pp.2409-2413.
 5. In the inter-war years oil was thought to be much rarer of occurrence than has been subsequently found to be the case.

for export outside of British India. Trinidad was a useful minor source, but even by 1939 it was not supplying more than one twelfth of United Kingdom imports. In areas of British influence, Sarawak was a small producer from 1913, and there were minor amounts in Egypt. By 1934 Bahrein was beginning oil production, and in that year, too, the long-awaited Iraq oil reached the Mediterranean by pipeline, while oil was later found in Kuwait (1938). For most of the period before the Second World War, however, the only notable oil producing area where Britain had influence was Persia, where oil had been struck in 1908. Persia provided 20-25% of Britain's refined oils, and much of its crude, during the 1920's and 1930's.^{1.}

It follows from the above that Britain was dependent on imports from foreign territory for the bulk of her oil supplies. Until after the First World War the United States predominated, at first being almost the only supplier, then dropping to a 60% share in 1900, Russia supplying most of the remainder in that year. During the First World War the United States supplied 75-80% of British imports, but in 1920 this fell to 60%, Mexico contributing most of the remainder. The 1920's saw the decline of imports from the United States to 33% in 1930, while Persia (23% in 1930), Venezuela (16%), and a slowly recovering Russia (11%) shared the remainder, pushing a declining Mexican output into fifth place. By 1936 the United States' share had dropped to 10%, although it recovered to 18% in 1938, at the

1. Dunstan, Science of Petroleum, Vol. 1, pp.22-23.
Details of exports from the Files of the Petroleum Information Bureau, London.

expense of Mexico.^{1.} In the latter year Venezuela (main supplier since 1932) supplied 38%, and Persia 20%.^{2.} In 1938, if one counts Persia and Iraq as countries where British influence was of some importance (though exercised in different ways) Britain received no more than 32% of her oil imports from areas over which she had some measure of control.

Britain's dependence on foreign oil may to some extent have become a little less worrying by 1938 in that actual and potential sources of oil were now more numerous than they had been in the earlier years of the century,^{3.} but, on the other hand, Britain needed much more oil in 1938 than she had done in earlier years. In 1900 one million tons of oil products (84% kerosene, 16% lubricating oils) had sufficed, and in 1921 two and a half million tons (29% motor and aviation spirit, 25% gas, diesel and fuel oils, 18% kerosene, 12% lubricating oils) was sufficient. In 1938, however, United Kingdom consumption stood at 8,990,000 tons, of which 55% was motor and aviation spirit, 18% gas, diesel and fuel oil, 8% kerosene and 6½% lubricating oils.^{4. & 5.}

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1. 1938 was the year in which Mexico declared the nationalisation of its oil industry.
 2. Files of the Petroleum Information Bureau, London.
 3. Ignoring for the present the ominous signs in Europe which tended to focus attention on the oil question.
 4. Excluding bunkers. King, op. cit. pp.551-552.
 5. Crude oil is a complex mixture of hydrocarbons. The chief products required for the market are separated out primarily by distilling operations, advantage being taken of the different ranges of boiling points.
Gasoline, petrol or motor spirit: Very light, volatile constituents. Aviation spirit generally consists of the more volatile fractions of gasoline.
Kerosine: Light and volatile, but less so than gasoline. Used for heating and lighting.
Gas, diesel and fuel oils: Heavier and less volatile than kerosine.
 (This footnote continued on following page)

This growth of oil consumption and the changing proportions of the major products reflect several trends of the period, particularly the increasing use of motor vehicles, a trend seen not only in increased consumption of motor spirit (from less than one million tons in 1921 to nearly 5 million tons in 1938), but in increased motor vehicle manufacture in the United Kingdom (73,000 vehicles^{1.} in 1922, 445,000 in 1938). There was also a greatly increased demand for gas, diesel and fuel oils (1921 - 726,000 tons, 1938 - 1,608,000 tons). Demand increased for all products (except kerosine) during the whole period, and although, as the figures show, kerosine soon lost its early predominance and major importance as electricity and gas became more readily available for lighting and heating, nevertheless actual consumption of kerosine increased slowly after^{2.} 1921, although never (before 1940) attaining its 1900 level.

Footnote 5 continued from preceding page -

The products vary considerably, from very light fractions differing only slightly from kerosine to very heavy fractions or residues.

Gas oil has a variety of applications, ranging from the production of gas of high calorific value to use as a burning fuel. Also used as a constituent in special products (eg. insecticides). The properties of diesel oils vary widely, dependent on the type of engine for which they are intended.

Fuel oils similarly have a wide range of properties, chief applications being as fuel for furnaces designed either to produce power or electricity, or heat alone (eg. for brickmaking).

Lubricating oils: Manufactured from the higher boiling point constituents of crude oil. Many are specialised products.

Other products: Bitumen, wax, etc.

(Asiatic Petroleum Company Limited, A Petroleum Handbook (London, 1933)). For more precise definitions see: Institute of Petroleum, A Glossary of Petroleum Terms (London, 1951).

1. The production figure for 1937 was 508,000. London and Cambridge Economic Service, Key Statistics of the British Economy, 1900-1962 (London, 1964) p.9.
2. United Kingdom kerosine consumption in 1900 was 870,000 tons. In 1921 it was 536,000 tons, and in 1938 it was 721,000 tons. (King, op. cit. pp.551-552).

Most of Britain's oil supplies during this period were imported as already refined products, although in the 1920's and 1930's about 2 million tons of crude oil were imported annually and refined in the United Kingdom, some of the refined products being then re-exported. This is in marked contrast to the post-Second World War policy of importing the bulk of the supplies as crude oil and only a comparatively small proportion as refined products.^{1.}

III Britain's Middle Eastern Oil Policy 1900 - 1914.

In the years immediately preceding the First World War, the security of Britain's oil supplies became an issue of some importance. Although as yet naval oil consumption was small,^{2.} the supply of this vital commodity had to be secure and, moreover, it had to be secure at the right price. What was needed, ideally, was a good source of oil in territory over which Britain could exercise some measure of control. Moreover, it was highly desirable that the commercial control of such a source should be independent of the two major

1. In 1965 approximately 77% of United Kingdom oil imports was in the form of crude oil. In 1965 total oil product re-exports exceeded in quantity the whole of United Kingdom consumption for 1938.

(Petroleum Information Bureau, Oil - The United Kingdom, pp. 5-7).

2. Naval oil consumption in 1913 was approximately 200,000 tons, though this was expected to double by 1916. Several million tons of oil would have been required had the whole navy been oil - fired.

Admiralty Memo: Oil Supply for HM. Navy, June 16th 1913, p.3.
CAB 37/115/39.

international oil companies, so as to obviate any monopolistic price-fixing¹. to the financial detriment of the Admiralty.

Although oil sources at this time were not as widespread as they were to become later, discoveries had been made in areas of interest to the Admiralty, such as in Trinidad, in Egypt and in Persia. The evidence of there being only small reserves in Trinidad and Egypt detracted from the value of these sources, but the Persian discovery proved important enough greatly to interest the Admiralty.².

Persia was already an important area of the world to Britain, for reasons mainly connected with the fact that Persia

1. The Admiralty was especially concerned to guard against what it considered to be the monopolistic price-raising practices of the two major international oil companies, Standard Oil and Shell. Hence it was encouraged to invest in the Anglo-Persian Oil Company (see below) in order to prevent it being drawn into "an ever-widening price ring". (Parliamentary Debates (H of C) 5th Ser., Vol. 63 (1914) Col. 1140.)

NOTE: Prices per ton (f.o.b.). of fuel oil quoted to the Admiralty were as follows:-
1910: 23/2d. 1912: 29/10d. 1913: 39/2d 1914: offers at 50/- . Freight charges also increased similarly.

2. See Appendix II.
For some of the evidence relating to various sources taken by the Royal Commission on Fuel and Engines, see: Report of the Royal Commission on Fuel and Engines, Vol. I., Summary Evidence, pp.5-28.
ADM 116/1208.

formed, (along with Afghanistan and the Western part of China) a buffer between British India and the expansionist Russian Empire and also between British India and the German-oriented Turkish Empire. Britain sought to exert her influence in Persia to counter any foreign, particularly Russian, attempts to gain influence there.

It is therefore not surprising that the British Government gave diplomatic assistance to an Australian, William Knox D'Arcy,¹ in his efforts to gain an oil concession in Persia.. These efforts achieved success in 1901 when, having circumvented possible Russian opposition, D'Arcy was granted an exclusive oil concession by the Persian Government,² covering all Persia except the five Russian - dominated northern provinces.³

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1. For a brief summary of D'Arcy's early career, and an account of how he came to be interested in Persian oil, see B. Shwadran, The Middle East, Oil and the Great Powers (New York, 1955), p.15.
 2. For an account of how the British Minister in Tehran used his good offices in D'Arcy's favour, see A. Hardinge, A Diplomatist in the East (London, 1928) pp.278-280. These events, although too early to warrant detailed treatment in this thesis, do give rise to speculation on the difficult problem of how far the British Government encouraged the oil interests to adopt a forward policy in areas of particular interest to that Government - and how far the process worked in reverse, with the oil interests urging the Government on. (Comment on this general theme will be made later in this thesis).
 3. Russia's preponderant influence in Northern Persia was eventually given formal recognition in the 1907 Anglo-Russian Agreement in Persia. The concession granted was for a period of sixty years. It gave exclusive oil exploitation and pipeline construction rights. The Persian Government was to receive 16% of the Company's net profits. For the full text see J.C.Hurewitz, Diplomacy in the Near and Middle East (2 vols: Princeton, New Jersey, 1956) Vol.I, pp.249-251.

The Company subsequently formed by D'Arcy eventually, after some vicissitudes,^{1.} struck oil (1908), and in 1909 was incorporated into a new company, the Anglo-Persian Oil Company, an entirely British concern with roughly half of the capital provided by Lord Strathcona (the former Canadian railway magnate and former High Commissioner for Canada) and half by the Burmah Oil Company.^{2.}

By 1912, after constructing a refinery at Abadan, fed by pipeline from the oilfield over 130 miles away, the Anglo-Persian Oil Company was in financial difficulties, and needed £2,000,000 for development. Sir Charles Greenway, the Company's chairman,^{3.} appealed to the Admiralty for financial

1. For example, in 1905 D'Arcy's company was in serious financial difficulties and was apparently saved from being taken over by French interests only by the intervention of the British Admiralty, which induced Lord Strathcona and the Burmah Oil Company to finance D'Arcy's project. Parliamentary Debates (H of C) 5th Ser., Vol. 63 (1914) cols. 1190-1191.
Also R.B. Lockhart Ace of Spies (London, 1967) pp.33-44 (a rather romantic account whose authenticity is debateable).

2. Initial capital was £2,000,000. Lord Strathcona held 50% of the shares, the Burmah Oil Company 48%, and 2% was held by Persian interests. Lord Strathcona was Chairman, and D'Arcy was one of the directors.
Parliamentary Papers (H of C) 1914 (Cmd 7419) Liv, 505. "Explanatory Memorandum on the Acquisition of the Anglo-Persian Oil Company".
Parliamentary Debates (H of C) 5th Ser, Vol. 63 (1914) col. 723.

3. Sir Charles Greenway. 1857-1934.

One of the principal founders of the A.P.O.C. Greenway had been active in the commercial and industrial life of India from 1885 to 1908. In addition to his positions with the A.P.O.C. and its associated groups, Greenway also held substantial interests in the firm of Shaw, Wallace and Co., India and Ceylon.

assistance, but at first made little headway. Then, after protracted negotiations,^{1.} eventually an agreement was made between the British Government and the Company, the necessary Parliamentary approval of the financial aspects of the matter being obtained just prior to the outbreak of war.^{2.}

The Government-Company Agreement of May 20th 1914 provided for British Government subscription to Company capital of £2,200,000, giving the Government a small majority of share votes. It was laid down that two ex-officio directors were to be appointed to the Company by the Treasury (one of these was to represent the Admiralty directly) with the power of veto, and the Government received the right to appoint more directors (proportionate to its share in the Company) if it should become necessary in the future. However, the Government agreed not to exercise its veto in purely financial and commercial matters, but to restrict it to matters affecting foreign or military policy, any change of status of the Company,

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1. For a full account of the negotiations see Marian Jack (now Kent), "The Purchase of the British Government's shares in the British Petroleum Company 1912-1914" Past and Present, Vol. 39 (April 1968) pp.139 - 168.
 2. For various criticisms made of the proposed measures in Parliament see especially:-
Parliamentary Debates (H of C) 5th Ser., Vol. 63 (1914) cols. 1144, 1154 - 59, 1165, 1179-88, 1218, 1212, 1230-38, 1247, Vol. 64 (1914) cols. 1034-35, 1044-52.

new fields of exploitation, or fulfillment of Admiralty contracts.^{1.}

An Admiralty supply contract was drawn up at the same time as the Agreement, but was kept secret. Under its terms the Admiralty obtained fuel oil from the Company at a price of 30/- per ton (f.o.b.), with provision for a reduction down to 20/-, the reduction to be in proportion to the profits of the Company after a certain rate of dividend had been made. This compared favourably with then current market prices of from 40/- to 75/- per ton.^{2.}

The acquisition of shares in the Anglo-Persian Oil Company by the British Government was an unprecedented step, which naturally aroused opposition from various quarters. How much it was brought about by the Company persuading the Government to take the necessary step, and how much it was the result of Admiralty pressure within Government circles, are questions of some difficulty.^{3.} What is undeniable is that the Government

1. In addition, the continuing British character of the Anglo-Persian Oil Company was guaranteed by specific provisions in the Agreement. For text see: Parliamentary Papers (H of C) 1914 (Cmd 7419) Liv, 505 "Agreement with the Anglo-Persian Company Ltd".

The limitations on the exercise of the Government veto were made explicit in a letter of May 20th 1914 from the Treasury to the Board of the A.P.O.C. See:- Parliamentary Debates (H of C) 5th ser., Vol. 226 (1929) cols. 2263-2264.

2. Memo: Proposed Agreement with the Anglo-Persian Oil Company, May 11th 1914 p.2. CAB 37/119/61. At the time a delivery of six million tons over twenty years was envisaged.

3. There is no doubt that the Anglo-Persian Oil Company did its best to persuade the British Government, by stressing not only the financial benefits likely to be gained by investment in the Company but also the political, strategic and other advantages of having a strong British company in control of the Persian oilfields. Much was made of attempts by the Royal Dutch-Shell Company to gain control of the Anglo-Persian, and of the rumours then current of German interest in the Shell group.

The Admiralty was at first reluctant to commit itself on the question of the acquisition of shares in the A.P.O.C. By mid-1913, however, Churchill (First Lord) had apparently become

made a sound business investment, deriving considerable financial benefit from the acquisition.^{1.}

The move also had other than financial implications, however, for, as will be seen later, involvement in the Anglo-Persian Oil Company made inevitable some direct Government involvement in oil politics, both in the Middle East and elsewhere.

Mesopotamia (later known as Iraq) was one area concerning which the British Government took a direct part in oil politics before 1919. Motivated both by the desire to support its newly acquired protégé, the Anglo-Persian Oil Company, as also by more general principles of foreign policy,^{2.} the British Government used its influence to ensure that the Anglo-Persian

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1. Churchill estimated the total return on Government investment by 1923 to have been approximately £40,000,000. (W.S. Churchill, The World Crisis (6 vols., London, 1923-29) Vol. I, p.71). By 1937, returns on investment and dividends alone (not counting savings on the fuel oil contract) amounted to nearly £16,000,000. (Parliamentary Debates (H of C) 5th Ser., Vol. 330(1937) Col.1337).
 2. The British Government encouraged British commercial enterprise in the Ottoman Empire both for the general purpose of increasing British economic wealth and for the purpose of indirectly increasing political influence in an area of great strategic interest to the Empire.

Footnote continued from previous page:

convinced of the wisdom of Government investment in the Company, and from then on the Admiralty "assume(d) the role of Company advocate". On this see: Jack op. cit., pp.139-146. Also, Royal Commission on Fuel and Engines, Vol. I, Summary Evidence, p.18. ADM 116/1208.

Oil Company gained a share of whatever oil might be found in Mesopotamia, steering the several parties concerned to an Agreement in March 1914.¹.

The Foreign Office Agreement, as this Agreement was termed, provided for the participation of the Deutsche Bank, Anglo-Saxon Petroleum Company,² and Anglo-Persian Oil Company interests in the Turkish Petroleum Company, a company formed in 1912 to exploit Mesopotamian oil resources.³ The Anglo-Persian Oil Company was to hold $47\frac{1}{2}\%$ of the shares, the Deutsche Bank

1. For an exhaustive account of the negotiations see Marian Kent, "British Interest in the Middle East Oil Concessions 1900-1925", Unpublished Ph.D. thesis, University of London, 1968.
(Dr. Marian Kent and Mrs. Marian Jack (referred to earlier) are the same person).
2. The Anglo-Saxon Petroleum Company was a subsidiary of the Royal Dutch-Shell Company.
3. In 1911 an English Banker, Sir Ernest Cassel, formed a company called "African and Eastern Concessions Ltd", which became the Turkish Petroleum Company in 1912. At that time (1912) the shares were distributed between the National Bank of Turkey (35%) Gulbenkian (15%) Anglo-Saxon Petroleum Company (25%) and the Deutsche Bank (25%).

25%, the Anglo-Saxon Petroleum Company 22 $\frac{1}{2}$ %, and C.S. Gulbenkian¹. the remaining 5%. An important provision in the Agreement bound the participants not to seek concessions within the Ottoman Empire except through the Turkish Petroleum Company itself.²

Upon conclusion of this Agreement the Turkish Petroleum Company, with German and British diplomatic assistance, then sought an oil concession from the Turkish Government covering the vilayets of Mosul and Baghdad.³ On June 28th 1914 the Turkish Grand Vizier was induced to give a formal, written promise of a concession for the two vilayets. The outbreak of war prevented any further progress in the matter, however.⁴

1. Calouste Sarkis Gulbenkian (1869-1955) was an Armenian, educated in Britain, who in 1888 entered his father's oil business at Baku. Later he took an interest in Mesopotamian oil possibilities, and it was generally acknowledged in the 1920's that Gulbenkian was the principal founder and prime mover in the initial formation of the Turkish Petroleum Company. It is a curious fact, however, (if a usually reliable private source is to be believed) that Gulbenkian never set foot in Mesopotamia.

For a readable (but not especially reliable) biography of Gulbenkian, see R. Hewins. Mr. Five Per Cent (London 1957) p.67.

2. Text of the Agreement of March 19th 1914 is in:-
G.P. Gooch and H.W.V. Temperley, British Documents on the Origins of the War, 1898-1914 (11 Vols: London, 1926-38) Vol. X, Part II, pp.345-346.

3. See Kent op. cit., p.200 et seq.
Shwadran, op. cit., p.196.

4. Text: Hurewitz, op.cit. Vol.I, p.286.

Nevertheless, the Grand Vizier's promissory letter was to be of great significance later, as will be seen. Not only was it to figure prominently in the controversy over Mesopotamian oil in the early 1920's, but also it was to be a major consideration leading to the grant of an oil concession to the Turkish Petroleum Company (in 1925) by the Iraqi Government.

IV. Towards Peace 1914 - 1918

Oil's part in the war which broke out in 1914 was tremendous. Tanks, lorries, and aeroplanes all depended on petrol for their motive power, while at sea the British navy became more and more dependent on oil fuel.

In the last six months of 1918 the oil product requirements of Great Britain, France, Italy, and the American Expeditionary Force totalled over four and a half million tons, requiring the employment of a large number of tankers for transportation.¹ Special supply arrangements had to be made,² for by now oil had

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1. Memo by M. Benard: The American Naval Estimates and the European Supply of Petroleum Products, February 28th 1920
FO371/4330/189896/189896.
See also Appendix I, below.
 2. In 1916 a Committee for Regulation of Petroleum Supplies was set up, and in 1917 the British Government took full control of the regulation of petroleum imports. In 1917 an agreement was drawn up between the major oil companies and the British Government whereby tanker tonnage and distributing facilities were pooled. Early on in 1918 an Inter-Allied Petroleum Council was established for the joint handling of petroleum problems.
See: Great Britain, Ministry of Munitions, History of the Ministry of Munitions (8 Vols: London, 1919-22) Vol. VII, Part III p.143.
Also: Files of the Petroleum Executive, under the reference B.T. CTA.281.
(NOTE: At the time when these files were consulted they were located in the Ministry of Power. They are now located in the Department of Trade and Industry, presumably under a POWER 33/-- reference).

become "as necessary as blood"¹. to the successful prosecution of the war. At the same time, as the European parties in the Alliance came to realize how dependent they were on United States supplies of oil (over 80% of total oil supplies came from the USA), their determination to remedy this situation after the war increased, producing repercussions of some moment both before and after the final victory over Germany had been won.

In Britain, a body known as the Petroleum Imperial Policy Committee was appointed in May 1918 to try to find a solution to the problem of how the British Empire could obtain a secure and permanent supply of oil in the years which would succeed the ending of the war. The Committee concerned itself with such questions as Imperial cooperation on oil matters, the exclusion of foreign capital from potential oil concessions in the Empire, and, more specifically, with projects for gaining control for British interests of one major international oil company, the Royal Dutch-Shell.²

1. Petrol was stated to be "as necessary as blood in the battles of tomorrow". (Clemenceau to President Wilson, December 15th 1917. Quoted in E.H. Davenport and S.R. Cooke, The Oil Trusts and Anglo-American Relations (London, 1923), p.32.

2. Great Britain, Public Record Office, Foreign Office,
Report and Proceedings of the Petroleum Imperial Policy Committee
 FO368/2255/87990/141764.

By the Armistice, however, little of concrete value had been achieved by the Committee.¹ On the other hand, events in the Middle East, which left the British in occupation of large parts of the Turkish Empire, had brought new factors into play. The British were now in a strong position in areas where oil was confidently expected to be abundant; in particular, they had physical control of Mesopotamia.² In the bargaining to come at the Peace Conferences and elsewhere, this was going to be of crucial importance.

1. Until November 1918 proposals for gaining control of the Royal Dutch-Shell Company were linked with proposals involving the sale of the British Government's shares in the Anglo-Persian Oil Company. The project in this form was abandoned because it seemed impossible to secure sufficiently firm control of Shell except at an unacceptable price, involving also the Government's loss of firm control of the APOC.

2. Despite what some writers have said on this matter, the prospect of gaining control of Mesopotamian oil did not have a decisive influence on British war policy in the Middle East. See Kent, op. cit., p.263.

The British were not especially keen to advance on Mosul even when it seemed that the Russians were likely to advance into that area.

See: Committee of Imperial Defence, The Campaign in Mesopotamia Vol. III, p.253.

Also, it should be noted that the Sykes-Picot Agreement of 1916 awarded Mosul to France - although it is true that the British later did everything possible to overturn this Agreement (though not only with oil in mind, but railways etc. also).

CHAPTER 1

FROM OIL SHORTAGE TO DEPRESSION 1919-1933.I. The World Oil Situation 1919-1927.

The history of the oil industry in the period 1919 to 1933 falls naturally into two main sections. Firstly, the period from 1919 to 1927, when the balance of supply and demand for oil products fluctuated considerably but did not for long give predominance to either. Secondly, the period from 1927 to 1933, when supply greatly outstripped demand and then, because of the economic depression, continued to do so for several years.

During the period 1919 to 1927 the world's production of crude oil grew from 77 million to 174 million metric tons.¹ The United States was responsible for approximately two thirds of this production, but, on the other hand, she also consumed approximately the same amount of oil as she herself produced. Thus, while the United States exported considerable quantities (mainly as refined products) she also had to import similar quantities (mainly of crude oil) in order to satisfy her own internal demand. During the years 1920-1922 American demand generally outstripped her own supply and upset the balance of exports over imports.² This, it should be noted, was one of the reasons for American nervousness of British oil policy during

1. See Appendix II.

In 1926 the world's oil production was distributed among the major companies as follows: Standard Oil Group 26%; Royal Dutch-Shell 10%; Anglo-Persian Oil Company 4%; Ten other large independent firms 16%; Soviet Russia 5½%; Others 39%. ("Soviet Oil Exports", The Economist, March 24th 1928, Vol.106, p. 581.)

2. For footnote 2 please see following page.

these years, which nervousness only really faded away when the overproduction of 1923 restored the balance. ¹.

American exports satisfied approximately 30 - 35% of the external world's demand between 1919 and 1927. ². Thus, although extremely important, the United States' supplies were by no means adequate in themselves to meet the rising world demand.

In 1919 the principal producers after the United States were Mexico, Russia, the Dutch East Indies, and Persia. However, Mexican production, after reaching a peak in 1921, rapidly declined, largely owing to the ingress of salt water in the wells. Russian production, hit by the chaos of Revolution, Civil War and Intervention, dropped to its lowest Twentieth Century figure of 3,832,000 metric tons in 1920, after which it gradually recovered, overtaking its 1916 production

Footnote 2 from preceding page

American imports compared with exports 1913-1927 (figs. in millions of barrels)

	<u>EXPORTS</u>			<u>IMPORTS</u>		
	<u>Crude</u>	<u>Refined</u>	<u>TOTAL</u>	<u>Crude</u>	<u>Refined</u>	<u>TOTAL</u>
1913	5.4	46.8	52.2	17.8	0.4	18.2
1919	6.3	57.5	63.8	52.8	1.4	54.2
1920	9.3	70.3	79.6	106.2	2.6	108.8
1921	9.6	62.0	71.6	125.4	3.4	128.8
1922	10.8	63.5	74.3	127.3	8.7	136.0
1923	17.5	84.4	101.9	82.0	17.6	99.6
1924	18.2	98.9	117.1	77.8	16.8	94.6
1925	13.3	100.5	113.8	61.8	16.4	78.2
1926	15.4	116.5	131.9	60.4	20.9	81.3
1927	15.8	125.8	141.6	58.4	13.3	71.7

Total Exports represented about 15% of total United States crude oil production. Source:- L.M. Fanning, American Oil Operations Abroad (New York and London, 1947), p.226.

1. See Chapter 3, Section III, below.
2. Fanning, op. cit., p.225.

figure by 1927. Production in the Dutch East Indies increased only slowly during this period. Rumanian production regained its prewar importance by 1924.¹

Persian production increased fourfold between 1919 and 1927, rising from 1,337,000 to 5,310,000 metric tons by the latter date.² This represented almost the entire output of the Middle Eastern area in this period, since Egyptian production reached only 184,000 metric tons in 1927, while Bahreini, Iraqi and Arabian oil development still lay in the future.

The most outstanding development during this period was in Venezuela. Until 1924 production there was comparatively insignificant, but by 1927 it had reached 8,769,000 metric tons - a figure which it was almost to double in the following year, thereby overtaking both Russia and Mexico, to become second only to the United States.³ This rapid development, in which the Royal Dutch-Shell Company played the major part, along with certain

1. See Appendix II.

The Allies sabotaged the Rumanian oil wells in 1916, in order to prevent Germany from using them.

2. See Appendix II.

3. See Appendix II.

American companies, helped to bring about a worldwide glut of oil in 1927.^{1.}

Consumption of all oil products increased during this period, though with a marked swing towards the consumption of gasoline, and fuel oil, at the expense of kerosine. (See table below.^{2.})

This continued a trend noticeable before 1914, a trend fostered by greater industrialization, and the development of mechanical

1. Overproduction in the American fields was, however, the main cause of over-supply in 1927 (see below).
For a short account of Venezuelan development see H. O'Connor, World Crisis in Oil (London, 1962) pp.128-136.

2. United States Refinery Output 1919-1927.

<u>Year</u>	<u>Amount of</u>		<u>Gasoline/Naphtha</u>		<u>Kerosine</u>		<u>Gas and Fuel Oil</u>		<u>Lub.Oil</u>	
	<u>Crude refined</u>		<u>%age</u>	<u>Prod.</u>	<u>%age</u>	<u>Prod.</u>	<u>%age</u>	<u>Prod.</u>	<u>%age</u>	<u>Prod.</u>
1919	51.5		25.2	13.0	15.4	7.9	50.2	25.8	5.6	2.9
1923	77.0		30.0	23.1	9.6	7.4	49.5	38.2	4.5	3.5
1927	111.0		36.0	39.9	6.8	7.5	47.4	52.6	3.8	4.2

Production figures in millions of metric tons, calculated roughly from figures in Dustan, Science of Petroleum, Vol. III, p. 2126 (from which source the percentage figures were obtained).

transport on land, sea, and in the air - changes which the war had tended to accelerate.

The increased demand for gasoline was mainly due to its use in the rapidly increasing number of private cars, motor 'buses, and lorries. Whereas in 1914 there had been a world total of 2 million cars, in 1919 there were nearly 9 million, and this latter figure was almost trebled by 1927.¹ In addition, the higher grades of gasoline were in great demand as fuel for the aircraft of the post-war airlines, developments in this direction being stimulated by dramatic Atlantic crossings, air races, and, to a lesser extent, by military needs.²

Kerosine found application as a source of heat and light, although the spread of electricity was a factor inhibiting any increased consumption for these purposes. It was also used as fuel for driving agricultural machinery, although the development of mechanized farming in Europe was by no means rapid during this period.³

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1. Based on figures in:- C. Tugendhat, Oil, the Biggest Business (London 1968) p.39. Dunstan, Science of Petroleum, Vol. III, p.2124; and E.L. Bass, "Automobile engine design in relation to the world's fuel supplies", Journal of the Institution of Petroleum Technologists, Vol. II (1925), p.498.
 2. C.H.Gibbs-Smith, The Aeroplane: an Historical Survey of its Origins and Development. (London, 1960) chapter 13.
R. Miller and D.Sawers, The Technical Development of Modern Aviation (London, 1968) pp.12-14.
The introduction, in 1922, of lead tetraethyl as an anti-detonation agent was important for both aircraft and motor fuels.
 3. See H. Hunter, "Horses versus Tractors", in Baillière's Encyclopedia of Scientific Agriculture (edited by H. Hunter) (2 vols: London, 1931) pp.573-575.
On kerosine's varied applications in the 1920's see A.E.Dunstan (ed.) The Petroleum Industry, (London, 1922) pp.260,265.

Diesel oil engines were used on land to drive stationary machinery and to generate electricity; as yet, however, they were not used to any great extent in moving vehicles, although experiments to this end were progressing satisfactorily.¹ At sea the number of motor ships² grew from less than 300 in 1914 to three times that number by 1920. Ten years later the figure was well over 3,000, a great many of which were oil tankers. Diesel-electric ships were also making their appearance in the mid-1920's.³

The consumption of oil fuel burned under the boilers instead of coal increased appreciably during the period. Just after the war the ratio of merchant vessels burning oil to those burning coal was substantially the same as in 1914, approximately 16 million gross tons (oil) to 45 million gross tons (coal). By 1927 this had changed to 23 million gross tons (oil) to 41 million gross tons (coal). It must be noted, however, that while oil definitely proved its utility for passenger liners, where comparative cleanliness and ease of handling were of great importance, ordinary freight shipowners tended to be governed by the price factor, and in times of high oil prices they would even carry out the necessary modifications to enable their ships to revert to coal.⁴

1. Diesel lorries were first used in Britain in 1928. (Institution of Petroleum Technologists, Petroleum: Twenty-five Years' Retrospect, (London, 1935) p.6.
2. Motorships - ships burning oil products as fuel for internal combustion engines (diesel engines).(i.e.without the use of boilers).
3. Hardy, op.cit., Vol. I, pp. 12-14.
L.Jones, Shipbuilding in Britain mainly between the Two World Wars. (Cardiff, 1957), pp.42-43.
4. Hardy, op.cit., Vol. I, p.12. "Oil - III - The Trend in Demand," The Economist, May 26th 1923, Vol. 96, p.1183.
"Notes of the Week: The Consumption of Fuel Oil," The Economist, October 6th, 1923, Vol.97, p.515.

Fuel oil was also used extensively in factory boilers, and in Britain some experiments in its use on railways were carried out just after the war, and during the 1926 Coal Strike.^{1.} Here price and availability of the rival commodities, coal and oil, were important factors determining the use of each.

Apart from the above oil products, others were also of importance. How vital were good lubricants to the smooth operation of all the varied machinery in use in the 1920's need not be stressed, and such oil products as bitumen, waxes, and various solvents became in ever greater demand as the world's industrial and technological development proceeded.^{2.} In addition, schemes for utilizing oil products in more novel ways were being considered, as a passage written in 1921 shows:

It appears to be by no means unlikely that synthetic rubber, dyes, resins, alcohols and the like may be manufactured from this source at no distant date.^{3.}

The history of world oil prices during the period 1919-27 is almost entirely the history of United States oil prices. If the United States suffered from a shortage of oil, prices all over the world rose; if it had a glut of oil, prices all over the world fell.^{4.} This was inevitable as long as the United States remained the

1. Dunstan, The Petroleum Industry, p. 301.

G.M. Barrett, "Railway traction in relation to the Oil Industry". Journal of the Institution of Petroleum Technologists, Vol. 19 (1933) p. 725.

2. Dunstan, The Petroleum Industry, pp. 254, 290-292, etc.

3. Ibid., p. 197.

4. This statement should not be taken as applying to Soviet Russia, of course.

principal producer and consumer of oil products, and the so-called "Gulf-plus" system of pricing - under which the charge to refiners for supplies of crude oil, no matter from where obtained, was the same as if the supplies had come from the Gulf of Mexico¹. - was a logical acceptance of the predominance of the United States in the oil world.

From 1915 to 1920 American Crude oil prices rose steadily, as did the prices of most other (non-oil) commodities. During the peak period (mid-1920) crude oil prices were some 200% above their 1913 value, and they remained high, though dropping slightly, into 1921. Significantly this was the hottest period of the Anglo-American "Oil War".² Production resulting from the discovery of new fields then helped bring about a sharp drop in crude oil prices later in 1921 (though all commodity prices fell at this time). By 1923 crude oil prices were a mere 50% above the 1913 norm, and as such were comparable with other (non-oil) commodity prices, which had fallen steadily from 1920 to 1923.³

1. On this see H.J. Frank, Crude Oil Prices in the Middle East. (New York, 1966) pp.8-13.

2. See Chapter 3, Section III.

3. These details are all obtained from an article by Sir R. Waley-Cohen, "Economics of the Petroleum Industry," in Institution of Petroleum Technologists, Petroleum: Twenty-five Years' Retrospect, pp.23-32.

From 1924 to 1926 the general trend was a rise in crude oil prices, with production increasing less rapidly than in the immediate post-war years, while demand continued steadily to increase¹. Then came the glut of 1927, caused partly (as noted earlier) by the great increase of Venezuelan production, but, more directly, by overproduction in the United States.² Crude oil prices plummeted to approximately 60% of the 1926 figure,³ where they remained until 1929. It may here be noted, for reference in a later chapter of this study, that it was precisely at this point in time (1927) that oil was struck at Baba Gurgur, in Iraq.

In the transportation of oil products across the seas of the world there were no really radical changes during the period 1919 to 1927. The world tanker fleet grew by leaps and bounds,⁴ but

1. Ibid., pp.24, 26.

2. Advances in production techniques were partly responsible for the U.S. increase. The re-entry of Russia into the world's oil markets was also a factor in creating world over-supply.

3. 1926 prices were approximately 100% above those of 1913. By 1927 they were approximately 20% above the 1913 norm. (Waley-Cohen, "Economics of the Petroleum Industry," in Institution of Petroleum Technologists, Petroleum, Twenty-five Years Retrospect, p.24).

4. Figures for world tanker tonnage were approximately as follows:-
1915: 1½ million gross tons. 1920: 3 million. 1925: 5 million.
1930: 7½ million gross tons.

The war had begun the destruction of Britain's dominance of world tanker tonnage. From 1914 to 1920 Britain's share dropped from 57% to 45% (that of the U.S.A. jumped from 13% to 48% in same period). By the mid-1920's the British Empire's share was only 37%.

(Hardy, op.cit., Vol. I., p.14.

Memo for the Dept. of Overseas Trade, enclosed in Geddes (Washington) to Curzon, July 29th 1920 F0371/4585/898/5494. Oil Fuel Board Memo, Neutral Tonnage Available for British purposes. (1925) CAB 50/3. O.B. 10.)

the actual size of tankers did not increase above pre-war carrying capacity. Some technical improvements were made, but the most radical experiment of the period - the American attempts to build concrete tankers - was abandoned as unsuccessful.^{1.}

After the First World War the great increase in demand for oil products, particularly for gasoline, coupled with fears of an oil shortage, led to an increased development of oil technology in all aspects of the industry. More scientific methods of finding oil, and, when found, of extracting it and converting it into the desired products, were urgently needed, and it was in fulfillment of these needs that attention was turned to the development of geophysical methods of exploration, drilling methods, production techniques, and, especially, the "cracking" (or thermal breakdown of oil) process.

Just before the First World War the old "wildcat" methods of finding oil were slowly beginning to give way to more scientific methods based on geological principles. By the early 1920's, crude geophysical exploration methods were extensively used, particularly in the United States. However, by the end of the period under review, these more advanced methods had still not reached a position where the "wildcatter's" wholly intuitive methods of oil finding

1. L. Dunn, The World's Tankers (London, 1956) pp.64-70.
(For the origins of the tanker, and an account of its development before 1914, see pp. 1-59.).

could be entirely dispensed with.^{1.}

The main defects of the early rotary system of drilling (inability to penetrate hard rocks, difficulty in drilling a straight hole, etc.) were not fully overcome in the 1920's, but they were at least sufficiently diminished by 1925 for progress to be made towards deeper drilling than was practicable with the percussion system.^{2.} By 1927 the deepest well was still only just over 8,000 feet in depth, but already the deeper drilling so far carried out was "unlocking hidden reserves" of oil.^{3.} During

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1. Geophysical methods of prospecting all rely on the fact that oil occurs in certain definite structures which can be detected by determining the location of large scale heterogenities in the earth's crust by plotting the physical properties of the rock in the region under examination. Seismic, gravity, magnetic and electrical methods were all in use in this period.
"Wildcat" methods: The totally unscientific methods of searching for oil deposits - usually consisting of the making of a rough reconnaissance of the terrain, and then drilling at a spot selected by "hunch".
 2. "The modern rotary is ... revolutionizing drilling practice, and except in hard compact sandstones and limestones it is replacing all percussions." (A. Beeby Thompson, Oilfield Exploration and Development (2 vols: London, 1925) Vol. II, p.617).
Dunstan, Science of Petroleum, Vol. I, pp.273-275.
Institution of Petroleum Technologists, Petroleum: Twenty-five Years' Retrospect, pp.65-67.
 3. "Notes of the Week: Federal Oil Conservation Board Report", The Economist, September 18th 1926, Vol. 103, p.460.
 It should, however, be noted that the percussion systems still had an important function where hard rock was encountered; but the speed of the rotary system was an important factor which made deeper drilling economically practicable.

this period the technique of drilling under water was being developed, too, following the striking of a gusher less than two miles from the shores of Lake Maracaibo, in Venezuela, in December 1922.^{1.}

Little organized research on the scientific production of oil had been carried out during the war years, but soon afterwards the advantage obtainable by the scientific unit control of an oilfield became generally acknowledged^{2.} - though not with any marked practical outcome in most of competitive America. Techniques such as the "air lift" production method were developed, however, contributing substantially to the increased production of the middle 1920's.^{3.}

The cracking process has contributed more towards the conservation of crude oil than any development in the history of the petroleum industry, for to have produced

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1. C.N. Crosthwaite, Introductory Paper at the Symposium on Submarine Exploration for Oil, Journal of the Institute of Petroleum, Vol. 45 (1959) p.263.
 2. Dunstan, Science of Petroleum, Vol. I, pp. 534-535. Scientific Unit Control implied the control of output and the maintenance of gas pressures in the whole oil-bearing structure compromising a given oilfield.
 3. See on this Dunstan, Science of Petroleum, Vol. I, pp.577-578, and "Oversea Correspondence: United States", The Economist, March 26th 1927, Vol. 104, p.640. "Air lift" - air or gas is injected, through an annular spacing between the eductor tube (up which the oil flows) and the casing, into the oil and gas mixture at the foot of the well. The extra pressure thus created aids and stimulates the upward flow of oil.

all motor fuel requirements from straight run gasoline would have necessitated the raising of enormous quantities of crude oil, with the subsequent production of fractions far in excess of requirements

These words were written in 1940¹. when the cracking process had developed considerably beyond the stage it had reached in 1927. Nevertheless, they apply to the earlier period also, and point to the main motives for the development of the process during the 1920's. The need to produce better gasoline suitable for use in engines with the higher compression ratios then being introduced also stimulated cracking developments in this period. Cracking capacity grew, and the percentage of gasoline derived by this method increased - from only 10% in 1918 to 31% in 1926.². The flexibility which the cracking process gave to the refiner, in allowing him to adjust output of gasoline or heavy oils to changes in demand, was an important factor in maintaining price stability. At the same time, the quality of the gasoline produced improved.³.

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1. A.W. Nash, "The Development of Petroleum Refining", Journal of the Institute of Petroleum, Vol. 26 (1940), p.44.
"Cracking"

Under certain controlled conditions of temperature and pressure, the heavier hydrocarbons in crude oil can be split or "cracked" to produce lighter hydrocarbon compounds (together with a certain residue of even heavier hydrocarbons). Thus, for instance, fuel oil can be split into gasoline (or kerosine) and residue, the gasoline (or kerosine) thus produced being more valuable than the original fuel oil.

2. A table showing the increase in engine compression ratios from 1924 is given in:
G.Egloff and L.Badona, "The cracking art in 1932" Journal of the Institution of Petroleum Technologists, Vol. 19 (1933), p.505.
The motives for the development of new cracking processes included the need to circumvent existing patents, the need to make the process continuous (as the Dubbs process), reduction of costs etc. A table showing the importance of each process in actual production is in: Enos, op.cit., p.226.
3. Estimated octane ratings for petrol sold in Europe rose between 1922 and 1928 from 51 to 58 (No. 1 grade) and from 43 to 55 (No.3 grade). (Dunstan; Science of Petroleum, Vol.IV, p.2407)

Oil technology was thus advancing from its almost entirely empirical stage of the pre-war years to a state where scientific method was not only recognized as desirable but was, indeed, held to be essential to economic efficiency. The grim period of economic depression which was to follow in the early 1930's was to give added point to these considerations.

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II. The Depression (1927-33)

The oversupply of 1927 was the beginning of a phase of economic difficulty in the oil industry which lasted well into the 1930's. From 1926 to 1927 United States oil production had leaped from 106,474,000 metric tons to 123,486,000 metric tons, turning a national supply deficiency of over 2 million tons to a surplus of over 9 $\frac{1}{2}$ million tons and causing stocks to rise from 74 million tons to 84^{1.} million tons. In 1928, however, the situation improved, following^{2.} restrictive measures in various states, and production remained at approximately the 1927 level, causing some further addition to stocks, but not maintaining its threat of a further great increase.^{3.} Then in mid-1929 the "restriction front" collapsed, and production once more forged ahead, reaching a total of 138,104,000 metric tons, resulting in the addition of a further ten million tons to American^{4.} oil stocks.

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1. Calculated from figures in "Commercial History and Review of 1929", The Economist, February 15th 1930, Vol. 110, p.45.
 2. Restriction of production was successfully enforced in the important oil-producing states of Oklahoma, West Texas, and California. ("The Stock Exchange: The Failure of Oil Restriction," The Economist, July 6th 1929, Vol. 109, p. 24).
 3. Due in the main to the individualism and unwillingness of certain groups to cooperate (The Economist, Vol. 109, p. 24).
 4. Stocks in terms of months' supply, however, were falling very slightly between 1927/(The Economist, Vol. 110, p. 45).
and 1929

During this period world oil production, at a figure of 152,804,000 metric tons in 1926, grew from 174,055,000 metric tons in 1927 to 205,135,000 metric tons in 1929, the main factors in this rise being^{1.} the United States' and Venezuelan production increases. The Middle East still remained a minor source of oil (under 6 million tons were produced from Persia and Egypt in 1929) accounting for about^{2.} 10% of the amount moving in international trade in 1930.

Overproduction was not new in the oil industry, and the over-supply situation in 1927-29 was not so much worse than it had^{3.} been in 1923 that any great alarm need have been felt. Provided that demand kept on rising as it had been doing since the war, increased production from new discoveries - even such as that of the East^{4.} Texas field in 1930 - and from technological advances, could be expected to find a market eventually. Old fields would decline, new outlets for oil products would be found, and thus demand would eventually approximate to supply. In the event, however, this state of affairs was not to come to pass for several years.

1. Production figures from Dunstan, Science of Petroleum, Vol. I, pp. 22-23.

2. Frank, op. cit., p. 13.

3. In 1922 and 1923 excess of supply over demand had amounted to approximately 14 million tons each year (The Economist, Vol. 110, p.45).

4. The famous "Dad" Joiner's discovery, which was an important factor in the sudden drop in oil prices in 1930. See Tugendhat, op. cit., p. 93.

The general economic depression which began in 1929 prevented the oil industry from making a quick recovery from its difficulties, and, moreover, it intensified those difficulties.^{1.} Whereas the overproduction of 1923 had been followed by a period of steadily rising demand, the 1927-29 overproduction was followed by a period of comparatively static, then falling, demand. Inevitably this meant a severe fall in prices and a cutting back of production.

Taking 1926 prices as 100, prices in 1927-29 had been fairly steady at an average of 63, 86, and 96 for crude oil, gasoline, and "non-oil" commodities. By 1933, however, the corresponding figures had fallen to 25, 59, and 65.^{2.} American oil production fell from its 1929 peak of 138 million metric tons to 107,645,000 metric tons in 1932 (after which it again rose). Production trends in other countries did not follow exactly the same pattern, but the effects of the depression can nevertheless be discerned.^{3.}

With the heavy fall in prices came the inevitable fall in profits, with some large American oil companies even recording losses in the depression years.^{4.} It may be noted here, for reference later, that the Anglo-Persian Oil Company's net profit fell from £5.2 millions in 1929 to £2.3 millions in 1931, the consequent sudden reduction in^{5.}

1. (It is beyond the scope of this study to consider the interesting question of whether or not the overproduction of oil (together with overproduction of agricultural products etc.) helped to bring on the general economic depression.)

2. Waley-Cohen, "Economics of the Petroleum Industry," in Institution of Petroleum Technologists, Petroleum: Twenty-five Years' Retrospect, p. 24. (see Appendix III).

3. See Appendix II.

4. Some figures showing the effects of the depression on the profits of American (and other) companies may be found in O'Connor, op.cit., pp. 19-20.

5. Figures from Shwadran, op. cit., p. 161.

the Persian Government's income from the Company precipitating a serious crisis in Government-Company relations (see Chapter 12).

During the period 1927 to 1933 the general trend in the refineries towards the production of gasoline at the expense of other products continued, notwithstanding the slowing effect of the depression on motor-car production.¹ After 1929 the trend towards producing an increasingly smaller proportion of fuel oil from the crude, noticeable since 1921, began to accelerate, possibly influenced by the especially severe effects of the depression on shipping (which was one of the principal users of fuel oil) and by the growth of the "cracking" process. In general the depression tended to enhance and strengthen trends already occurring; once the worst of the depression was over, the process of change from one product to another seems to have been less rapid.²

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1. Figures for motor car registration in the United States were 26,524,000 in 1930, only 24,751,000 in 1934. Dunstan, The Science of Petroleum, Vol. III, p. 2124.
 2. Principal Petroleum Products from Crude Oil (Percentages)

<u>YEAR</u>	<u>Gasoline and Naphtha</u>	<u>Kerosine</u>	<u>Gas and Fuel Oil</u>	<u>Lubricants</u>
1923	30.0	9.6	49.5	4.5
1927	36.0	6.8	47.4	3.8
1928	37.4	6.6	46.7	3.8
1929	39.4	5.8	45.4	3.5
1930	42.0	5.3	40.2	3.7
1931	44.3	4.7	37.7	3.0
1932	44.7	5.3	35.9	2.7
1933	47.3	4.4	36.7	2.9
1934	47.4	6.0	37.5	2.8
1935	48.2	5.7	35.3	2.8

Source: Ibid; III, p. 2126.

The depression years severely hit oil tanker owners, with many ships lying idle, and freight rates at rock bottom.^{1.}

These conditions certainly did not encourage innovation. However, one particular development by the Japanese during this period should be noted - the building of a very fast tanker in 1931.^{2.}

The effect of the depression on oil technology was to emphasise the already strong trend towards the use of more scientific

1. In August 1932 there were as many as 398 tankers (3,803,089 tons dwt.) laid up. Institution of Petroleum Technologists. Petroleum: Twenty-Five Years' Retrospect, p.130. For graph of tanker freights 1922-1938, see Frankel, op. cit., p.159.

2. The Japanese fast tankers had a cruising speed of $17\frac{1}{2}$ knots, whereas the average tanker then had a speed of only 12 knots. The Japanese hoped to use the fast tankers for conveying raw silk, or special fish and vegetable oils, on what would otherwise have been empty eastward journeys across the Pacific. (Apparently the use of the slower tankers for raw silk etc. was not practicable, for reasons connected with the nature of the market for such products). The Japanese navy soon became interested in this development - causing American and British navy men to take careful note. Dunn, op. cit., pp.76-77. Seventh Annual Report of the Oil Board, October 26th 1932, p.14.
CAB 50/4. O.B. 83.

techniques in the search for more efficient ways of developing existing resources. Thus, instead of emphasis being placed on the search for new fields, attention was concentrated instead on the more economical development of fields already in production. In practice, however, this did not bring about any great change in the area most in need of such development, the United States. In that country the general acceptance in theory of the principles of scientific unit control of an oilfield was not followed by any noticeable implementation of those principles, despite the incentive which depression conditions gave to such development.¹ As always the American "free-for-all" system prevailed, to the detriment of the industry in general.

Lack of incentive to find new fields notwithstanding, some development in geophysical methods of finding likely oil-bearing structures continued in the depression years.² At the same time, improvements to the rotary drill (in particular the development of harder drilling bits) were made. The use of steel of higher tensile strength enabled pipeline thicknesses to be reduced, while still allowing pumping pressures to be increased. Techniques were also developed whereby the production of longer sections of pipeline became

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1. For example, with unit control there would be more control over the production from a particular area, and to some extent production could be adjusted to market conditions. Unit control was in itself a more economical process, since waste, loss of pressure etc. could be avoided.
 2. Seismic surveying methods made some progress in this period.

possible, resulting in the reduction of time, labour, and material
1.
expenditure on jointing in the field.

While the "cracking" process continued to develop during the period 1927-1933, stimulated by the continuing demand for gasoline of ever higher octane ratings, at the same time a newer process, hydrogenation, was moving from the laboratory stage to that of large-scale experimentation. In 1930 pilot plants were operating in both the United States and Britain, and much experimental work was in progress in Germany. However, while many of the purely technical problems had been overcome, most of the economic ones remained, thereby preventing any full scale exploitation of the process during
2.
this period.

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1. Institution of Petroleum Technologists Petroleum: Twenty-Five Years' Retrospect, pp. 62-67, 115-119.
Dunstan, Science of Petroleum, Vol. I, pp.272-275 and page XI.
 2. Hydrogenation - a process whereby (in this case) the ratio of hydrogen to carbon in either coal or petroleum could be increased - had been the subject of discussion and experiment since the early 1920's. The aim of the process was, in the case of the hydrogenation of coal, to produce oil products as substitutes for those derived from natural oil. In the hydrogenation of natural oil itself, however, the aim was to improve the yield of particular products (especially of high grade gasoline) as compared with the yield from either straight distillation or from "cracking" processes.
Institution of Petroleum Technologists. Petroleum, Twenty-Five Years' Retrospect, p. 107.
K. Gordon "Development of hydrogenation and Fischer-Tropsche processes in Germany," Journal of the Institute of Petroleum Vol. 33 (1947) pp. 469-470.
Parliamentary Papers (H of C) 1937-38 (Cmd 5665) xii, 439, "Report of the Committee of Imperial Defence Sub Committee on Oil from Coal", pp. 26-35.

III The Achnacarry Agreement

The period of economic difficulty from 1927 to 1933 naturally had its effect on the attitude of the oil companies to each other. However, while on the one hand the difficulties of the situation tended to make each company more than ever ready to fight its rivals for a share in whatever markets were still open and unsaturated, on the other hand those same difficulties also led the companies to seek to cooperate with each other in order thereby to lessen those difficulties.

In 1928 the Anglo-Persian Oil Company, which since the war had continued to expand its activities outside its main base, Persia, entered into an agreement to pool its distributing facilities in its Eastern markets with those of the Asiatic Petroleum Company, a Royal Dutch-Shell Company subsidiary. This was followed, in the succeeding four years, by the amalgamation of the distributing facilities of the two companies in Britain and elsewhere. During 1928, also, the Burmah Oil Company, which held a large shareholding in the Anglo-Persian Oil Company, bought one million ordinary shares in the Shell Transport and Trading Company. There was thus a certain degree of interlocking between the three main British companies.¹

1. Tugendhat, op.cit., p.107.

Also various Foreign Office papers in F0371/12835/file 1270.

Also: Great Britain, Public Record Office, Treasury, Summary of Conclusions of Conference of Ministers, February 16th 1928.

T. 161/284. file S.33045/2.

"The Stock Exchange: Cooperation in the Oil Industry", The Economist, December 21st 1929, Vol.109, p.1196.

Competition between the Americans and British (including British-Dutch) companies had not generally been very fierce during the period when supply was busily chasing demand. The change in the situation in 1927, however, and the realization of what damage an all-out trade war could wreak on the oil industry as a whole - as exemplified in the bitter Shell-Standard Oil (New York) struggle over Russian oil in 1927-28¹. - led the major international oil companies anxiously to review their policies. As a result, on September 17th 1928 the three principal figures in the international oil world - W.C. Teagle². of Standard Oil (New Jersey), Deterding³. (Royal Dutch-Shell group) and Sir John Cadman⁴. (Anglo-

1. The Royal Dutch-Shell Company wanted Standard Oil (New York) to cease buying Russian oil. This would help Shell's campaign against Russian expropriation of oil properties. On Standard Oil's refusal to cooperate, Shell attempted to price them out of the Indian market. In a very short time the "war" had spread to Europe and the U.S.A. Tugendhat, op. cit., p.98. United States, Senate, Small Business Select Committee on the International Petroleum Cartel, Staff Report to Federal Trade Commission (Committee Report, 82nd Congress, 2nd Session) (1952), pp.197-198.

2. W.C. Teagle was President of the Standard Oil Company (New Jersey). In the early 1920's he played a large part in the negotiations leading to the American entry into the Turkish Petroleum Company (see below, Chapter 3, Sections III and IV).

3. Sir Henri W.A. Deterding (1866-1939)

Started in Indonesian Branch of Nederlandsche Handel Maatschappij "showing that grasp of essential figures and data which throughout his life allowed him to take quick, well-balanced decisions in complicated situations". Joined Royal Dutch Petroleum Co. in 1896, and in 1900 became managing director.

In 1907, on the merging of the Royal Dutch and Shell Companies, he became its first managing director (till 1936). He was knighted in 1920, following on the great services of his Company to the Allies during the War.

Deterding was probably the most shrewd and able international oilman of his time, and his personal ability was no small factor in the growth in wealth and importance of the Royal Dutch-Shell Company. He was, however, rather sensitive and his temper was (please see following page)

Persian Oil Company) - concluded an agreement at Achnacarry, in Scotland, which set the pattern for all the later attempts during the 1930's to establish overall control of the world's markets.¹

The Agreement, entitled the "Pool Association", but more commonly referred to as the "Achnacarry Agreement", set out certain principles, aimed at stabilizing the world oil situation, in so far as companies' proportionate shares of the market outside the United States were concerned, as it existed in 1928, thereby eliminating competition between the signatories. Pooling of the signatories' distribution facilities, reciprocal exchanges of

(footnote 3 continued from preceding page)

quickly roused particularly, it would appear, in dealings with Government officials.

See: Encyclopedia Britannica (Chicago, 1969) Vol. 7, p.311
Henri Deterding and S. Naylor. International Oilman,
(London, 1934).

(footnote 4 from preceding page)

4. Sir John Cadman (later Lord) (1877-1941)
Inspector of Mines in 1902. Government Mining Engineer in Trinidad in 1904, where he first became interested in oil. Professor of Mining and Petroleum Technology at Birmingham University 1908-1920. Adviser on Petroleum (and other matters) to the Colonial Office and Board of Trade. A member of the Royal Commission which reported on the Persian oilfields in 1913-14.
During the First World War Cadman served on the Petroleum Executive, and was later a member of the Petroleum Imperial Policy Committee. He continued as a Government official until late in 1921, when he joined the Anglo-Persian Oil Company. In 1927 Cadman became Chairman of that Company, and then also Chairman of the Turkish (later Iraq) Petroleum Company. (see below, *passim*, for further comments).
Biography of Cadman: J. Rowland and Lord Cadman, Ambassador for Oil (London, 1960).

1. Select Committee on International Petroleum Cartel, p.199.
Tugendhat, op.cit., p.100.

supplies, allocation of quotas for each market, and the establishment of a detailed pricing system (the "Gulf-plus" system formalised, in effect) were envisaged. It was hoped thus to eliminate competition and to reduce costs, and, thereby, to maintain both consumption (by making prices attractive) and profit levels.^{1.}

The Achnacarry Agreement was not meant to set up a "closed shop", however, since it was in the signatories' interests to ensure the application of its principles to all the leading companies in the extra-United States market.^{2.} The formation, within a few months of the signature of the Achnacarry Agreement, of two American export trade associations, having a common link in the Standard Oil Company (New Jersey), which, as has been seen, was a signatory of the Achnacarry Agreement, meant that the principles envisaged at Achnacarry would have the widest possible application.^{3.}

The Agreement had excluded the United States from its sphere of action because of the American anti-trust laws with which it

1. Select Committee on International Petroleum Cartel, pp.200,205.

2. Tugendhat, op.cit., p.102.

3. The U.S. export associations allocated quotas to individual member companies, on a similar principle to that of the Achnacarry Agreement. (Select Committee on International Petroleum Cartel pp.201-202, 218-228.)

might otherwise come into conflict. Inside the United States a move towards cooperation and reduction of competition was going forward, nevertheless, but, due to legal and other difficulties, the measures adopted there were never very effective.^{1.}

The oil companies' schemes for a worldwide cartel soon ran into trouble, and the Achnacarry Agreement itself proved to be "more of a statement of things hoped for than a practicable guide"^{2.} for achieving the companies' objectives. While some success was achieved in fixing

1. ibid. pp.210-213.

"The Stock Exchange: The Failure of Oil Restriction",
The Economist, July 6th 1929, Vol. 109,
p.24.

2. Select Committee on International Petroleum Cartel,
p.210.



1.

prices in the British market, in the world as a whole the fact that, extensive though it was, the cartel as operated did not in fact include all sources of likely competition in all markets, led in the end to the disruption of the scheme. Further attempts, on similar lines, to achieve a viable cartellization scheme all succumbed to the stronger inter-play of economic forces. Only when the worst of the depression had passed did such schemes stand any real chance of success, although even then such cooperation as was achieved was less real than apparent.

2.

The oil companies' grandiose schemes, had they been more successful, would inevitably have come into conflict with the policies of national governments, which were becoming increasingly involved in oil affairs. The French Government was especially concerned to regulate the activities of the oil companies in its territory, and it had a definite policy to foster the development of the refining industry in France. The Italian Government also was taking a keen interest in oil, having established the state-controlled Azienda Generale Italiani Petroli in 1926 as a means of developing Italian oil resources at home and engaging in the exploitation of oil sources abroad. The Japanese, spurred on by naval needs, were unlikely to allow the oil companies a free hand in developing schemes of their own without

1. Tugendhat, op. cit., p. 105.

"The Price of Petrol", The Economist, March 9th 1929. Vol. 108, p. 489.

"The Stock Exchange: Cooperation in the Oil Industry",

The Economist, December 21st 1929, Vol. 109, p. 1197.

"Commercial History and Review of 1929", The Economist, February 15th 1930, Vol. 110, p.45.

2. Tugendhat, op. cit., pp.105-7.

Select Committee on International Petroleum Cartel, pp.229-241
(et. seq.).

reference to their vital interests, while the rise of the Nazi Party to power in Germany in 1933 certainly precluded any government

disinterest in supplies of oil to Germany.^{1.} In Britain the dislike of state interference with private interests might have allowed the oil companies free rein for a time, but only for as long as the oil companies did not threaten either to jeopardise what the British Government considered to be its vital interests or so to arouse public

opinion as to necessitate government action.^{2.} The action of the British Government in taking over a majority shareholding in the Anglo-Persian Oil Company in 1914, and its subsequent refusal to

relinquish that shareholding,^{3.} sufficiently indicate that Government's interest in oil matters and, moreover, show that, in the last resort, the British Government would have been capable of ensuring that no all-embracing cartel could have been set up without its (at least tacit) consent. Thus, while to some extent the oil companies might have been able to hold governments to ransom over oil supplies, they were by no means capable of entirely controlling the situation, and they

1. Tugendhat, op. cit., pp. 109-110.

2. The British Government was stirred to action by public clamour against rising petrol prices in 1929. The principal oil companies were then asked for statements showing the reason for these price rises. On this see:
 "Commercial History and Review of 1929," The Economist, February 15th 1930, Vol. 110, pp. 45-46
Parliamentary Papers (H of C) 1928-29 (Cmd 3296) xvi, 685.
"Prices of Petroleum Products: Statement by the Oil Companies concerned".
Parliamentary Debates, (H of C) 5th Ser, Vol. 226 (1928-29) cols. 1266-7, 1600, 1846-8, 2261-2.

3. See below, Chapter 4.

needed the cooperation of the national governments equally as much as those governments needed the cooperation of the oil companies - at least, as long as the nations were at peace.

IV The British Aspect: 1919-33

How did Britain fare in the period 1919 to 1933? She had emerged as a victor from the First World War, but she had then to face the new problems which peace brought, in a world which bore little resemblance to that in which she had once seemed pre-eminent. Immediately after the war there was a boom period of industrial activity, caused by demand for products in short supply during the war, and by demand for such things as shipping to replace war losses.¹ Then, from mid-1920, came depression and a greatly reduced demand for British goods, due in the main to the industrial growth of other nations. Although there was some recovery of British industrial growth from 1924 (until 1929) the rate of growth of British industry was far less than in Germany, France, or the United States. The last-named, which had profited greatly from the re-orientation of pre-war trading patterns, and which had emerged from the war as a great creditor nation, soon displaced

1. J.H. Dunning and C.J. Thomas, British Industry: Change and Development in the Twentieth Century (London, 1961) p.19.

Britain from the position of the world's chief exporter of
^{1.}
 manufactured goods.

A serious decline in the export of Britain's one major raw material, coal, also occurred, largely because of the increasing utilization of foreign coal and the use of alternative sources of
^{2.}
 power such as hydro-electricity and oil. This decline further weakened Britain's position in world trade.

The decline in Britain's economic importance in the world naturally had political implications. The loss of economic prosperity led to reluctance to finance overseas commitments and to calls for reductions in general military and naval expenditure. The general public mood following the war was, in any case, inclined to lean
^{3.}
 heavily towards pacifism and general non-involvement. Hence Britain sought once again to let Europe look after itself, while she busied herself with her own affairs.

In 1913 Britain's consumption of oil products was approximately

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1. Dunning and Thomas, op. cit., p. 19.
 W.H.B. Court, A Concise Economic History of Britain (London, 1965) pp. 224, 339-341.
 D. Thomson, Europe since Napoleon (Harmondsworth, 1966) pp.600-601.
 2. Dunning and Thomas, op. cit., pp. 20-21.
 The effects of the Reparations clauses, whereby, for example, Italy received coal from Germany as Reparations, which coal she had formerly used to import from Britain, can be seen as tending further to dislocate pre-war trading patterns to the disadvantage of Britain.
 3. The tendency to pursue a vigorous foreign policy was partially responsible for Lloyd George's fall in 1922.
 (W.N. Medlicott, Contemporary England (London, 1967), pp.171-173).

2 million tons. By 1921 this had increased to $2\frac{1}{2}$ million tons, from which it grew to $3\frac{1}{4}$ million tons in 1923, and to 5 millions in 1927. Consumption in 1926 had even reached over 5,300,000 tons, due to the Coal Strike of that year, but it then fell to 4,994,000 tons in 1927. United Kingdom imports of refined products in 1919 consisted of 41% fuel and gas oils (1913 figure: 32%) 28% motor and other spirit (1913 figure: 20%) 21% kerosine (1913 figure: 31%) and 9% lubricating oils (1913 figure: 14%). The swing towards motor and other spirit continued in the 1920's, reaching 33% in 1923 and 46% in 1927, while kerosine drifted down to only 12% in 1927. Fuel and gas oils reached a peak of around 47% in 1920, then slowly declined to 36% in 1927. Lubricating oils fluctuated between 8% and 10% during the period.^{1.}

Although most of Britain's imports were still in the form of refined products (as before the war) significant developments in the United Kingdom refining industry took place during the early 1920's. In 1919 there had been only two refineries in Britain, one at Pumpherson, erected in 1884, and the Shell Haven plant, erected in 1916. Then in 1921 the Agwi Petroleum Company erected a plant at Fawley (later taken over by the Anglo-American Oil Company) and the Anglo-Persian Oil Company in the same year erected the first

1. Figures based on data in the Files of the Petroleum Information Bureau, and on data in King, op. cit., pp. 551-552. Bitumen consumption rose from under 2% in 1921 (44,000 tons) to nearly 5% in 1927 (282,000 tons). The annual value of Britain's oil imports in the later 1920's was almost £40 million. This was only a very small proportion of total annual imports (all commodities) which were over £1,000 million in value.

large-scale refinery in Britain for processing imported oil, at Llandarcy. The latter company followed this up in 1924 by the erection of another plant at Grangemouth, and at Stanlow Shell erected a small bitumen plant.^{1.} Imports of crude oil into the United Kingdom grew from an insignificant amount just after the war to nearly half a million metric tons in 1921, and to well over two million metric tons by 1927. In the latter year approximately one third of all British petroleum imports were in the form of crude oil.^{2.}

The depression after 1929 definitely slowed down the rate of growth of Britain's volume of oil imports. From 1927 to 1929 the import of refined products into Britain (excluding bunkers) grew from 4,994,000 to 5,868,000 tons, an average increase of 437,000 tons per year (or almost 17% over the two years). From 1929 to 1932, however, the growth was from 5,868,000 tons to 6,671,000 tons, an average increase of only 268,000 tons per year (or only 14% over 3 years).^{3.} Imports of crude oil had already begun to fall before the depression (1927 figure 2,700,000 tons; 1929 figure 2,600,000 tons)

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1. Petroleum Information Bureau, Oil - The United Kingdom Refining Industry (London, 1968) pp. 1 - 4.
 2. Institute of Petroleum, The Petroleum Industry in the United Kingdom, p. 55.
Some of the crude oil imported was no doubt re-exported as refined products, but the quantities involved cannot have been great. (In 1938 re-exports totalled just over half a million tons).
 3. Figures from King, op. cit., pp. 551-552.
The annual value of oil imports (including crude) dropped from £46 million to £29 million between 1930 and 1931, although the volume imported remained almost the same in these years.
(Files of the Petroleum Information Bureau).

following Government imposition of a tax on imported light hydrocarbon
1.

oils. The depression merely accentuated this fall, helping thereby
to halt the progress made in refinery construction during the early
2.
1920's.

Of the refined products, gasoline continued to increase its
lead over the others, although the depression years made little impact
on the rate of this increase. The only really significant changes
which occurred were a pronounced drop in the consumption of lubricating
oils, probably attributable to the slump in industrial activity, and
the first appearance in quantity of diesel fuel for use in diesel-
engined road vehicles, following the introduction of this type of
3.
vehicle in 1928.

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1. A tax of 4d per gallon was imposed. This did not apply to oil products from shale or from coal. One reason for this tax was the desire to help the Scottish shale oil industry, and to encourage oil from coal projects. From the strategic point of view it seems curious that measures should be taken at this time which would hit the refining industry in Britain, even if the measure was designed to foster the development of indigenous sources. Institute of Petroleum, Petroleum Industry in the United Kingdom, p.52.
Parliamentary Papers. (H of C) 1937-38 (Cmd 5665) xii, 439.
"Report of the Committee of Imperial Defence Subcommittee on Oil from Coal" p. 57.
 2. The refineries constructed in Britain from 1928 to 1932 were designed mainly for bitumen production. (Petroleum Information Bureau, Oil - The United Kingdom Refining Industry, (London, 1968) pp.4-5).
By 1931 crude oil imports had fallen to 1,400,000 tons. Thereafter they rose slowly to 2,000,000 tons in 1935. (Petroleum Information Bureau, Petroleum Industry in the United Kingdom, p. 55).
 3. United Kingdom Inland Consumption 1927-1932 (Thousands of tons)

<u>Year</u>	<u>Motor and Other Spirit</u>	<u>Kerosine</u>	<u>Derv. Fuel</u>	<u>Gas, Diesel, Fuel Oils.</u>	<u>Lub. Oils</u>	<u>Others</u>	<u>Total</u>
1927	2,304	744	0	1,125	430	391	4,994
1929	2,971	722	0.1	1,243	471	461	5,868
1932	3,586	722	10.0	1,441	412	500	6,671

Source: King, op. cit., pp. 551-552.

During the period 1919 to 1933 there were significant changes in the sources from which Britain obtained her oil products. What little crude oil Britain imported in the years 1919 and 1920 came mainly from the United States, Mexico, and Trinidad, but from 1921 onwards the bulk of the crude oil (80 - 90 per cent) came from Persia. For refined products the pattern was similar, although Persian refined oils did not loom so large in the picture as they did for crude oil. In 1919 65% of Britain's refined products came from the United States, 18% from Mexico, and various minor amounts came from at least six other sources, including Persia (3%). By 1923, however, the United States' share had fallen to 37%, with Persia (26%) overtaking Mexico (24%) for second place. The next four years saw little change in the American and Persian percentages, but Mexico fell away to well under 10%, while Venezuela took over third place with amounts rising to 16%. The later years also saw the re-emergence of Russia and Rumania as suppliers of oil to Britain, although even by 1927 these^{1.} sources together did not supply as much as 10% of Britain's oil.

The period from 1927 to the beginning of recovery after the depression in Britain (1932-33) saw the end of the United States' long rule as chief supplier of Britain's refined oil products. By 1932 the United States supplied only 21% of Britain's imports of refined products (as against 39% in 1928), and only 14% in 1933. Venezuela, which had supplied 16%, in 1928 now took first place,

1. Files of the Petroleum Information Bureau.

supplying 31% of Britain's refined products in 1933. The proportion obtained from Persia during this period varied between 20% and 24%. Persia still held first place as supplier of crude oil to British refineries, however, although by 1933 she supplied only 57% (compared^{1.} with 82% in 1928) of all British crude oil imports.

The trend away from American predominance in Britain's supplies is accounted for by economic changes rather than by any fixed British policy to reduce dependence on the United States, although, as pointed out in the previous chapter, reduction of this dependence was certainly considered desirable in Government circles. The growth of the Anglo-Persian Oil Company, and the expansion of the Royal Dutch-Shell's production and marketing facilities, together possibly with the effects of the reduction in the availability of American oil for export in the early 1920's, were primarily responsible for this development.

Although Britain's strategic supply situation was improved somewhat by the development of Persian oil (and by the promise of Iraqi oil - see Chapters 10 and 11), conveniently placed on the route to the East, and by the amounts available in Trinidad, Britain was still dependent on foreign sources for the bulk of her supplies. The British Empire was still by no means a prolific source of oil, nor^{2.} was Britain herself, and the great hopes of the Bergius and other^{3.} methods of deriving oil from coal were far from realization.

1. Ibid.

Footnotes 2 and 3, please see following page.

Thus, even though it was still very true that the age of Britain's predominant indigenous raw material, coal, was far from over - while Britain consumed 7 million tons of oil in 1933, she also produced^{1.} thirty times that amount of coal - this was of little comfort, for, should war come, Britain's armed forces would need oil, not coal, with which to defend the Empire.

Footnote 2 from preceding page

In 1933 the British Empire produced:- (metric tons)

Trinidad	1,328,000
India (Burma)	1,229,000
Sarawak and Brunei	623,000
Canada	148,000
Egypt	232,000
	<hr/>
	3,560,000
	<hr/>

(Dunstan, Science of Petroleum, Vol. I, pp. 22-23).
 Scottish shale oil production was about 120,000 tons.
 United Kingdom indigenous natural oil production was negligible.
 To the above total could be added 7 million tons in Persia, and oil was soon to flow from Iraq. Against this, however, must be set the fact that India, Canada, and Egypt had nothing to spare for export (and, indeed, needed oil imports) while distance robbed the Sarawak and Brunei fields of much of their direct importance to Britain. In reality, only the Persian and Trinidad supply sources were as yet of much value in affording oil to the Empire, and, of prime importance, to the British navy.

Footnote 3 from preceding page

Technically the Bergius method of high pressure, high temperature distillation of oil from coal was making progress during these years, but its progress towards becoming a realistic economic proposition for obtaining oil was still very doubtful.

"Dr. Bergius would not commit himself on the question of costs," - ("Notes of the Week: Petrol from Coal," The Economist, January 1st 1927, Vol. 104, p.16).

See Dunstan, Science of Petroleum, Vol. III. p.2149.

For an account of British experiments in these years see:-

Parliamentary Papers (H of C) 1937-38 (Cmd. 5665) xii, 439

"Report of Committee of ^{Imperial} Defence Subcommittee on Oil from Coal", pp. 15-35.

1. British coal production in 1933 was 207 million tons. (London and Cambridge Economic Service, Key Statistics of the British Economy 1900-1962, p. 9.)

CHAPTER 2

BRITAIN'S STRATEGIC OIL POLICY 1919-1932I Admiralty Oil Reserves Policy

During the period 1919 to 1932 the British Government's strategic thinking was governed by certain main assumptions. Firstly, there was the general assumption, adopted in 1919,¹ that there would be no major war in which Britain would be involved for ten years; in 1928 this assumption was put on the basis of advancing day by day, so that for any one day it could be assumed that for ten years hence there would be no major war.² Secondly, it was considered inconceivable that there would ever be a war

1. Cabinet Minutes, August 15th 1919. CAB 23/15. 616A.
Strictly speaking, this assumption applied only to the Estimates of 1919, but it was generally carried forward to apply to succeeding Estimates (even before 1928). It was supplemented by more specific assumptions, eg. in 1925, that there would be no war with Japan for ten years. (Cabinet Minutes, May 6th 1925, CAB 23/50. 24 (25) 3.)
2. Minutes of the Committee of Imperial Defence, July 5th 1928.
CAB 2/5 236th Meeting (6).

between Britain and the United States,^{1.} and a similar view was held of the possibility of there being a war between Britain and France.^{2.} Germany had not yet arisen from its defeat of 1918 to challenge Europe, and Italy was not apprehended as a probable enemy. Only Russia and Japan seemed even remotely to represent any threat to British interests, and for most of the period the former country's potential menace seemed to lie more in its subversive activities in Europe and elsewhere than in its potential as a military power.^{3.} Thirdly, although for various reasons Japan could thus be made to appear as the greatest single menace to Britain's Imperial interests, war even with that power was

1. Anglo-American relations in the period immediately after the First World War (1919 - 21) were not always cordial, friction occurring over, inter alia, naval matters (on which see S.W. Roskill, Naval Policy between the Wars, Vol. I (London 1968)), and over the control of oil sources (see Chapter 3 below). The two nations were never really in danger of going to war, however.
See the review of the "Origin and Present Position of the Decision to make no defensive Preparations against America as a possible enemy", in Note by Secretary to Committee of Imperial Defence, "Three Questions of Imperial Defence Related to Anglo-American relations", November 27th 1928. CAB 24/199. CP.368, pp.2-6.
2. See for example Prime Minister Baldwin's statement in Minutes of Chiefs of Staff Sub Committee of the Committee of Imperial Defence, December 19th 1927 CAB 53/2. C.O.S. 63rd Meeting, page 2.
War with France, however, was perhaps not quite so "inconceivable" as was war with the United States, in view of the perennial Anglo-French disputes over Middle Eastern questions.
3. In 1929, however, this view was qualified somewhat with regard to Russia's possible menace to the maintenance of Afghanistan as an independent buffer state between Russia and India. (see below).

considered to be unlikely.¹.

The above assumptions were laid down by the politicians of the day, and were not always considered to be sound by military and naval thinkers who, indeed, held some of them to be dangerous in the extreme - especially after the Anglo-Japanese alliance had been abandoned, and when naval tonnage ratios had been set, at the Washington Conference, at values which precluded any return by Britain to global supremacy at sea.² The assumptions were used, however, as the basis on which the annual estimates were framed, and as working hypotheses on which planning could proceed.

During the First World War the British navy had become almost entirely oil-fired, and it was thus natural that after the war the Admiralty should be very much concerned with the security of its oil sources. Of particular interest were Persia and Mesopotamia, where it was felt that ultimately oil production would be very great. The Admiralty was anxious to ensure that Britain should exercise the dominant control in those areas, but even those areas, when fully developed, would not in themselves guarantee the navy's oil supplies. This was so because "supplies (from those areas would) have to come by a long and difficult sea route and even if a pipeline (were) constructed to a Syrian port it (would) always be vulnerable and transport through the Mediterranean (might) be hazardous". The British

1. See for example remarks made in 1925 by responsible British Ministers (Cabinet Minutes, May 6th 1925. CAB 23/50. 24(25)3).

The British were jerked out of complacency in 1931 by Japan's Manchurian adventure, however (see below).

2. For a particularly powerful attack on the view that Japan represented no threat to British interests see Memo by First Lord of the Admiralty, "Political Outlook in the Far East", March 5th 1925. CAB 24/172. CP 139.

navy would therefore, in certain circumstances, still be dependent to a very large extent on the United States for its supplies. The only way to minimize this dependence, the Admiralty reasoned, would be to maintain large reserves. In putting this point to the Cabinet in January 1919, the Admiralty recommended that these reserves be fixed at a minimum of 'twelve months' war consumption, which was estimated to be 4,500,000 tons. This expenditure would be large, the Admiralty admitted, but it would be spread over a considerable period, and in any case was, in practical terms,

relatively negligible when it is remembered that the mobility of the British Navy is dependent upon it and that all other measures for the defence of the Empire may be rendered nugatory if oil fuel is not available and is known not to be available at moments of diplomatic pressure. 1.

2.
On January 17th 1919 the Admiralty proposals were approved. In the immediate aftermath of a war which had "abundantly demonstrated that the policy of storing large stocks of oil in this country (was) a vital necessity", there was little or no opposition to these proposals. This situation, however, was soon to change, and, following 4.
the adoption of the "Ten Years' Assumption" on August 15th 1919, the

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1. Admiralty Memo: Oil Fuel Reserve for the Navy in Home Waters, January 3rd 1919. CAB 24/72/2. GT.6594.
See also:-
Admiralty Policy in Relation to the Peace Settlement, January 1919. ADM 116/1861.
The American Naval Estimates and the European Supply of Petroleum Products, by M. Benard, February 28th 1920.
FO 371/4330/189896/189896.
 2. War Cabinet Minutes, January 17th 1919. CAB 23/9. 517(3).
 3. Note by W.H. Long, January 8th 1919. CAB 24/73. GT.6634.
 4. The assumption that there would be no major war for ten years.
Cabinet Minutes, August 15th 1919. CAB 23/15. 616A.

first of many reductions in the Admiralty's plans to secure a naval oil reserve was proposed in November of that year.^{1.}

Undismayed as yet by these signs of the times, however (possibly because of them?) the Admiralty proceeded to elaborate its overall oil schemes, and in February 1920 asked the Cabinet to approve the laying down of an oil reserve, additional to that for the navy, of 1,500,000 tons (over a period of ten years) for the supply of British merchant shipping.^{2.} Instead of being granted approval for this expenditure, however, the Admiralty was asked "in view of the present high prices" to defer for a year the further building up of the naval reserve, which was also at that time scheduled for completion in ten years.^{3.} Later the Admiralty was asked to make further reductions in its estimated expenditure on naval oil fuel.^{4.}

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1. Finance Committee Minutes, November 24th 1919. CAB 27/71. 16(3)
 2. Admiralty and Petroleum Executive Memo: Oil Fuel Reserve for British Oil-Burning Merchant Ships, February 5th 1920. CAB 24/98. CP.601. There were no specific plans for oil reserves for Britain's general internal use (nor for the Army or R.A.F.) at this time. The Admiralty reasoned that if the navy and the mercantile marine had enough oil for their own use, they could guarantee supplies for these other requirements. (Note: The Admiralty was not keen to accelerate the change from coal to oil for merchant vessels. See Department of Trade and Industry, C. Walker to Petroleum Imperial Policy Committee, November 14th 1918. POWER 33/44).
 3. At this point reserves stood at 1,400,000 tons, and it was planned to build this up to 4,500,000 tons by January 1929, by annual increments. In the year 1919-20 there had been no addition to reserves, mainly because of lack of storage capacity. Finance Committee Minutes, February 17th 1920. CAB 27/71. 20(2). Admiralty Board Minutes, February 18th 1920. ADM 167/60. (1154).
 4. Finance Committee Minutes, January 4th 1921. CAB 27/71. 31(3). Admiralty Board Minutes, January 20th 1921. ADM 167/63. (1305).

Linked with the general question of oil reserves was the question of Singapore. The war plans of the British navy were directed primarily towards dealing with the potential danger from the strongest naval power other than the United States - Japan.¹ For this reason the Admiralty had pressed for the construction of a first-class naval base at Singapore to which the main Fleet could be sent in the event of an emergency in the Far East. A large reserve of oil fuel was to be located there to ensure that the Fleet would be fully operational without having to place undue reliance on more distant supply sources. As is well known, the Singapore project came under fire from economisers in and out of Parliament, and for a period in 1924 the project was even suspended by the Labour Government. Labour's decision was much disapproved of by the Admiralty, of course, which foresaw the navy being thus made unduly dependent on Persian supplies for its operations in the Far East.² Even after the resumption of the

1. Summary of Admiralty Policy 1925-29, June 3rd 1929.
ADM 167/79, Board Minute 2589, Appendix, p.118.

2. See particularly the remarks made by Lord Beatty to the Committee of Imperial Defence in Minutes of the Committee of Imperial Defence, May 5th 1924.
CAB 2/4. 184th Meeting (2).
See also B.B. Schofield, British Sea Power (London, 1967), p.111.

project under the Conservatives, the slow rate of accumulation of oil reserves at Singapore continued to trouble naval minds.

Another problem associated with the naval oil reserves problem was that concerning control of possible oil sources within the Empire. There had never been any consistent Imperial policy regarding the granting of oil leases, and when an investigation was carried out in 1920 it was found that regulations varied widely. For example, South Africa, Australia, New Zealand, and some parts of the West Indies had no restrictions on development (for oil) of Crown lands by foreign interests, while, for instance, India, Trinidad, and British Guiana imposed severe restrictions on such development, allowing entry only to British capital; Canada, Nigeria and Somaliland operated rules midway between these two extremes. Some attempt was made by the Petroleum Department, in the early 1920's, to establish a consistent leasing policy throughout the Empire, but nothing concrete was achieved.¹ It was not until later events in Bahrein, Kuwait, and British Guiana forced the British Government to review Imperial Oil-leasing policies, in the early 1930's, that any further attempt

1. On this see Foreign Office Papers under the following references:-

FO 371/4329/180802/195242, 199468.

FO 371/7014/757/W4817, W8377, W12305.

FO 371/8300/6208/7098.

FO 371/8494/79/3524, 4079, 4695,

FO 371/9403/147/W5239.

at change was made (see chapter 13). Meantime, such development as there was in British territory failed to have any appreciable effect on Admiralty oil reserve plans. Britain still had to rely almost entirely on foreign sources for her vital oil supplies.

To return to the naval oil reserves policy proper. In February 1924 the Committee of Imperial Defence reaffirmed the War Cabinet decision of 1919 to lay down a total reserve of oil fuel for the navy equivalent to one year's consumption, though this reserve was only to be completed by 1937. The disposition of the reserves as they were accumulated was to be left entirely at the discretion of the Admiralty, however, thus leaving it free to concentrate on building up reserves on the Eastern route, which reserves it hoped to complete by 1931.¹ Throughout the subsequent period the Admiralty nevertheless had to fight a running battle to maintain the rate of accumulation of its oil reserves, while the Treasury led an attack aimed at reducing not only the rate of accumulation, but also the final total of the reserves - even, at times, coming very near to questioning the idea of there being a reserve at all.² From 1926 to 1929 provision for the

1. Minutes of the Committee of Imperial Defence, February 11th 1924. CAB 2/4. 181st Meeting (page 5).

2. See especially Memo by Chancellor of the Exchequer, "Oil Fuel Reserve for the Fleet", June 22nd 1925 and Memo by First Lord of the Admiralty, "Oil Fuel Reserves for the Fleet", June 29th 1925 CAB 27/273. N.P. (25)27 and N.P. (25)31. It was estimated that the provision of oil reserves between 1920 and 1925 (an accumulation of 1,880,000 tons of oil fuel) had cost £6,846,000. (CAB 27/273. N.P. (25) 27).

addition of only 100,000 tons each year was made, which was less than one third of the amount required to maintain the rate of accumulation sufficiently high to complete the reserves by 1937. The depression years then led to the cutting out of even these modest additions, while the Admiralty unavailingly stressed the probable dangerous effects of such a departure from policies already laid down.¹ By April 1932 total reserves stood at 4,270,000 tons, representing an increase of only 1,440,000 tons since February 1924. The total figure aimed at was now 7,582,600 tons. Already the Admiralty had been forced to consider delaying completion of total reserves until 1939 instead of 1937, with a similar delay (1933-34 instead of 1931) for completion of reserves on the route to the East.²

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1. It is a debateable point whether the depression years, when prices were at rock bottom, were not the very years when the Admiralty should have built up their reserves.
 2. Minutes of the Committee of Imperial Defence, February 11th 1926. CAB 2/4. 209th Meeting. (2).
Cabinet Minutes, February 22nd 1928. CAB 23/57. 11(28)2.
Cabinet Minutes, December 19th 1928. CAB 23/59. 58(28)2.
Admiralty Board Minutes, January 9th 1930 ADM 167/81. Minute 2676.
Admiralty Board Minutes, February 3rd 1931 and December 10th 1931. ADM 167/83. Minutes 2804 and 2890.
Memo by Chancellor of Exchequer ...June 22nd 1925. CAB 27/273 N.P. (25)27.
Committee of Imperial Defence, Oil Fuel Board Minutes, January 27th 1926 CAB 50/1. 2nd Meeting (6).
Seventh Annual Report of the Oil Board, October 26th 1932, page 11.
 CAB 50/4. O.B. 83.

The period 1919 to 1932 thus saw a change in the British Government's general attitude to the Admiralty's oil reserves policy, from one of complete acceptance of the necessity of having reserves to one (more normal, perhaps, in peace-time) of scepticism and great reluctance to sanction the financial outlay required for those reserves. War seemed a remote contingency only to be given consideration when the more pressing economic and other problems which peace had brought would allow such consideration. Every item of expenditure which could be cut down had to be cut down - and this, to the Admiralty's disgust, included the navy's vital oil reserves.¹ The development of Middle Eastern oil sources, actual in Persia (and Egypt) and potential, as in Iraq, could not really affect the issues involved. Oil from the Anglo-Persian Oil Company was obtainable at what was generally a bargain price, but even this seemed too much to pay in the current atmosphere of financial stringency.

II The Oil Board and Strategic Planning

On July 28th 1924 the Committee of Imperial Defence gave consideration to an Admiralty demand that the Admiralty should

1. Possibly the lack of really outstanding First Lords of the Admiralty (of the calibre of Churchill) helps to explain why Admiralty demands were so consistently disregarded.

assume control of the supply of all oil products in time of war. The general consensus of opinion at the meeting, however, was that, as the other Services also needed supplies of different kinds, it would be best if those Services retained their independence in this matter. The Admiralty then accepted this view, except in so far as the allocation of tanker tonnage for bulk petrol was concerned. Meantime, the Committee of Imperial Defence referred the whole question to the Principal Supply Officers' Committee.¹

On March 18th 1925 the Committee of Imperial Defence approved a recommendation made to them by the Principal Supply Officers' Committee that a Standing Sub-Committee, to be known as the "Oil Fuel Board", should be set up with representatives from all interested Departments in attendance. It was suggested that the Board's terms of reference should include the collection of information on departmental estimates of oil product needs and tanker tonnage requirements in time of war, and that, on the outbreak of war, the Board should be constituted as an executive committee to deal with the control of oil supplies.²

On December 31st 1926 the First Annual Report of the Oil Fuel Board was issued. This was concerned with the evaluation of the

1. Minutes of the Committee of Imperial Defence, July 28th 1924.
CAB 2/4. 187th Meeting (1).

2. Minutes of the Committee of Imperial Defence, March 18th 1925.
CAB 2/4. 197th Meeting (1).

essential elements in the problem of the supply and transportation of the oil requirements of the Fighting Services, the Mercantile Marine, and the civilian population of the British Empire in two eventualities - a war in the Far East in 1937,¹ and a war in that same area in the immediate future. Although much of the detailed appreciation was highly conjectural (as the Report itself admitted), the Oil Fuel Board had worked on the main assumption that the Far Eastern War would be without European complications, that it would be necessary for the Main Fleet to proceed to and operate from Singapore, and that an Expeditionary Force of 20 Divisions, with the air support necessary, would be sent to the area. The requirements of oil products needed for the prosecution of the war for the first year of hostilities were calculated on this basis.²

It must here be pointed out, however, that it would be unwise to read too much political significance into the fact that plans were apparently being made for fighting a war in the Far East, which could only imply a war with Japan. As has been indicated earlier, Admiralty personnel were by no means as convinced of Japan's pacific intentions as were most of the politicians, but,

1. The year 1937 was chosen because the navy's oil/fuel reserves were due to be completed in that year.

2. First Annual Report of the Oil Fuel Board, December 31st 1926.
 CAB 50/3 O.B. 20.
 The estimate of 20 divisions for the Expeditionary Force was really not much more than a guess. It was criticised as being far too high by several Ministers. (Minutes of the Committee of Imperial Defence, February 15th 1927 CAB 2/4 220th Meeting(4).)

this fact notwithstanding, the choice of the assumption of a Far Eastern war by the Oil Fuel Board was governed as much by hypothetical planning considerations as by any considerations of the probability of there ever being such a war, as the Oil Fuel Board's Report indicates:

Such a war (i.e. in the Far East) would, in our opinion probably make the greatest demand on available tanker tonnage, though not necessarily on consumption of petroleum; and, if such a demand on tanker tonnage could be met, the requirements for other wars could, in all probability, also be met. 1.

Thus, a "Far East War" was chosen as much for the strain such a war would impose on the maintenance of supplies as for any consideration of its likely occurrence.

The Oil Fuel Board's Report gave detailed estimates of the Empire's oil requirements in the two eventualities envisaged, and thereby revealed the total inadequacy of British-controlled supplies to meet Imperial needs (even with Persian and Egyptian supplies included as "British controlled").² The Board's

1. First Annual Report of the Oil Fuel Board, December 31st 1926.
CAB 50/3. O.B. 20, page 6.

2. The British Empire's estimated requirements for a war in 1937 (based on the difference between exports and imports) were as follows:-

<u>CIVIL REQUIREMENTS</u>	<u>TONS</u>
United Kingdom	4,904,000
Rest of Empire	7,740,000 (India 1 million, Canada $3\frac{1}{2}$ million)
<u>ARMED FORCES</u>	
Admiralty	7,500,000 (mainly fuel oil)
Air Ministry	180,000 (over 50% aviation spirit)
War Office	227,000 (mainly motor spirit)
<u>GRAND TOTAL</u>	<u>20,551,000 tons</u>

Armed Forces requirements for the "immediate future" war were the same as for 1937, though there was an additional $3\frac{1}{2}$ million tons needed to complete naval reserves.

Civil requirements were put at 3,336,000 tons (U.K.) and 5,161,000 tons (Empire).

Against this, the British Empire produced about 3 million tons (1925 figure). Persian and Egyptian supplies brought the total up to 7 million tons - less than half the Empire's requirements. Tanker transport would also have been a problem in the "immediate future" war, though much improvement was expected by 1937. (ibid. pp. 7-9, 12-13. and Appendix 6).

conclusions likewise underlined what had long been obvious to British naval and military planners. Firstly, the Report emphasised that

the maintenance of supplies from the Persian Oil-fields throughout a war is an essential feature of the scheme of distribution. The safety and the control of these oil-fields is, therefore, a matter of vital importance. 1.

The Admiralty representatives on the Oil Fuel Board, well aware that Persia was the nearest source of supply to Singapore (since the Dutch East Indies supply could not be relied on in the event of a war with Japan) doubtless pressed that this conclusion should be given prominence, if only to keep the Government's eyes open to the need for defence of those oilfields.² The second conclusion of the Report emphasised the importance of the United States in Britain's oil plans; the American attitude would be "a factor of primary importance" in the event of a war in the Far East, declared the Oil Fuel Board. On the future oil supply situation the Oil

1. Ibid., p.13.

2. See Chapter 5 below.

Fuel Board cautiously expressed the opinion that "there (was) no need to anticipate that world supplies (would) be inadequate" to meet demands in the period covered by the Report.^{1.}

The Third Annual Report of the Oil Board^{2.} was issued on April 26th 1929, and was concerned largely with two main issues. In the first place the Oil Board had been asked to examine the effect of the construction of a pipeline from the Iraq oilfields (where oil had been struck in 1927) to the Mediterranean seaboard. The Oil Board's detailed comments on this will be reserved for a later chapter in this study,^{3.} but it may be noted here that the pipeline was expected to add two million tons of oil to the Empire's supplies, and to facilitate the refuelling of the Fleet on its way to Singapore. Secondly, the Oil Board had been asked, with the purpose of bringing out just what Britain's dependence on the United States involved, to prepare a detailed statement of how Imperial requirements could be met in the event of a war in the Far East assuming firstly that the United States was a friendly neutral and, alternatively that the United States was an "unfriendly" neutral^{4.}

In the Oil Board's study the great degree of dependence of the British Empire on three particular sources - the United States, Venezuela, and Persia - was amply demonstrated.

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1. First Annual Report of the Oil Fuel Board, December 31st 1926.
CAB 50/3. O.B. 20. pp.7,14.
 2. (The Second Annual Report (in 1928) was merely a revised version of the First Report). The name "Oil Fuel Board" was changed to "Oil Board" in February 1927. (Minutes of the Committee of Imperial Defence, February 15th 1927 CAB 2/4 220th Meeting (4).)
 3. See Chapter 11 below.
 4. Terms of Reference of the Oil Board Sub-Committee.
Third Annual Report of the Oil Board, April 26th 1929
CAB 24/203. C.P. 142 (29), Annexure "A".

As the Report stressed,

the dependence on the U.S.A. and Venezuela for oil and refined products in time of war gives cause for great uneasiness. If U.S.A. is "unfriendly" and withholds supplies, the dependence on Venezuela becomes alarming. 1.

No less important was the Persian supply. The Sub-Committee relied, in its estimates, on obtaining at least 7 million tons of oil from this source (of which $4\frac{1}{2}$ million tons would be refined at Abadan, the rest at Suez, Rangoon, and Laverton, Australia). This was enough to supply all the petrol and kerosine needed by both Fighting and Civilian Services East of Suez, as well as fuel oil equal to half 2. the Fighting Services' needs.

All these considerations, of course, gave added point to the Admiralty's constant cry that adequate reserves of fuel oil were essential if the Empire was to be defended adequately. Supply arrangements were going to be difficult for the first few months of the war whether or not Britain had access to all possible sources, and large reserves were needed to help the Empire to come through this initial difficult period. The Oil Board did not fail to stress this point, and, in fact, it recommended that all the Fighting Services, and the Munitions industry, should accumulate reserves of lubricating oil sufficient for one year of hostilities. It also, echoing the Admiralty's cry, put forward the point that

1. Third Annual Report of the Oil Board, April 26th 1929.
CAB 24/203. C.P. 142 (29) p.18.

2. Ibid., pp. 16, 26-27.

unless one year's supply (of fuel oil) for the Fleet is in reserve at the outbreak of hostilities, the requirements of the Fleet ... cannot be assured. 1.

As always, however, Treasury representatives were loath to accept any recommendations which entailed additional expenditure,^{2.} and although the Oil Board's Report was approved by the Committee of Imperial Defence in May 1929, it was obvious from the remarks made at the time that it was to remain a piece of purely hypothetical planning and was not to serve as a basis for action.^{3.}

However, despite the relative unimportance of the Oil Board's Annual Reports in the context of actual Government policy, the fact that such reports were being made does at least illustrate that changes were taking place in British thinking on oil questions in the 1920's. Immediately after the First World War oil's vital

1. Ibid., p.19.

(The Oil Board also recommended that refinery erection and development should be encouraged in Britain and in territory under the British flag. This contrasted, in fact, with actual Government policy, which tended at this time to discourage refining in Britain - see Chapter 1 (above).)

2. See for example the remarks of the Permanent Secretary in the Treasury (Sir Warren Fisher) in Minutes of the Committee of Imperial Defence, May 2nd 1929.

CAB 2/5. 242nd Meeting (2) page 4.

3. Ibid., p.5.

importance to Britain's armed forces had stood out to all concerned, politicians and military strategists alike. During the early 1920's, however, while the main concept of the War's lessons had not been forgotten, pressing financial needs, economic and other problems of peace, the apparent remoteness of any likely war, and a partial return to pre-war modes of thought, had led most of the people who ought to have been concerned with the planning of how to ensure oil product supplies in the event of war almost entirely to ignore the problem. Only the Admiralty, whose vast requirements of oil fuel far exceeded the total of all products required by the Army and Air Force combined, had given any great thought to the oil supply problem before 1924. It was perhaps only under the stimulus of Admiralty demands for control of all oil products for all Services that any great attention was then given by the War Office and the Air Ministry to these matters.

In November 1924 the Air Ministry carried out its first really detailed appraisal of possible requirements of aviation petrol in the event of war. Its reserves then were obviously inadequate, and they were to remain so, despite more formal arrangements being made regarding the storage of reserves, right into the 1930's.¹ Similarly, the War Office only embarked on

1. See various papers, minutes etc., in the following Air Ministry files:- Air 2/1454, Air 2/1455, Air 9/43.

a detailed examination of the Army's petrol supply situation in the event of war in 1924. Later, however, the advance of mechanization - slow though it was to men who argued "that the day of the horse was over, and that the future lay with the tracked vehicle"¹. - necessitated further more detailed examination of supply problems. Even then, though, much was left undetermined, largely because of the number of alternative operations it was possible to envisage.².

However this might be, during the period after 1924 British thinking on strategic oil questions was slowly turning towards consideration of details, even if such consideration could not always be translated into active policy. At the same time it was recognized that the cooperation of the Empire as a whole, including the Dominions, would be necessary if any detailed appreciation of Imperial war needs was to be of value and was not to be too highly conjectural. Consequently, during 1928 and 1929 the idea of there being common consultation with Dominions representatives (and representatives of the Government of India) on strategic oil problems developed and, to a limited extent, was

1. A reference to J.C. Fuller, an advocate of mechanization in the 1920's.

C. Barnett, Britain and her Army, 1509-1970 (London, 1970)., p. 413.

2. See various papers, minutes etc., in the following War Office files:- W.O. 32/3204, W.O. 32/3205, W.O. 32/3206.

put into practice.^{1.} With the example of the almost total non-cooperation of the Dominions on the Singapore project before it,^{2.} however, the Oil Board could hardly have expected that cooperation on oil questions would have led to the adoption of any measures which might have entailed additional Dominions expenditure, even had it been possible to secure the Home Government's sanction for such financial outlay.

In 1928 there was a revolt in Afghanistan against the policies of the King of that country, King Amanullah. This revolt, and the ensuing civil war,^{3.} prompted a suggestion at a meeting of the Committee of Imperial Defence (in 1929) that the Oil Board should make an appraisal of the oil situation which would obtain in the event of Britain becoming involved in a war with Russia in Afghanistan. This suggestion was immediately welcomed by Sir Austen Chamberlain (Secretary of State for Foreign Affairs), who declared that

by far the most dangerous point in the world was Russia, where, with its internal state as it was, it was impossible to tell what might happen in the future ... (4).

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1. Note by the Secretaries to the Oil Board, January 14th 1929 (and attached papers). CAB 50/3. O.B. 29.
Oil Board Minutes, July 24th 1929. CAB 50/1. 9th Meeting.
See also Minutes of the Committee of Imperial Defence, May 2nd 1929. CAB 2/5. 242nd Meeting (2) page 7. conclusion 9.
 2. New Zealand was the only Dominion to contribute to the construction of the Singapore base. (Roskill, op.cit., Vol. I, p.465.)
 3. Royal Institute of International Affairs, Survey 1930 (London 1931), pp.182-186.
 4. Minutes of the Committee of Imperial Defence, May 2nd 1929
CAB 2/5. 242nd Meeting, pp.4-5 (the suggestion referred to was made by Sir Hugh Trenchard, Air Ministry)

One should not read too much significance into the suggestion that planning should proceed on the basis of a war with Russia in Afghanistan, nevertheless. Such a war was not deemed to be impending, nor was it felt to be more than a possibility which might some day have to be reckoned with. It was felt at this juncture, however, to be more likely than was a war with Japan.^{1.}

A war with Russia in Afghanistan would obviously have affected, directly or indirectly, Britain's position with regard to her Middle Eastern oil sources, and this point was duly noted by the Oil Board when it set out its plans for providing for the Empire's oil needs in the event of such conflict.^{2.} Firstly, however, the Report dealt with the transportation difficulties envisaged, which were far less than those expected in the event of a war with Japan.^{3.} Then it considered the situation which could obtain should Russia be cut out of the world's oil trade by blockade.

If Russia were cut out of the world's oil trade, not only would Britain have to find another source of supply for the three quarters of a million tons of oil products which she normally imported from that source, but also she would have to cope with the fact that the world's oil trade as a whole would be disturbed, since Russia then normally exported nearly 3 million tons of oil

1. The part of Chamberlain's remarks quoted above was immediately preceded by the following sentence:-

"In his (Chamberlain's) view...war with Japan was so unlikely in present circumstances that this country need not in practice take any immediate measures of defence against such a contingency". (Ibid., p.5.)

2. Sixth Annual Report of the Oil Board, September 30th 1931 (Annexure "A") pp.30-32. CAB 50/4. O.B. 71.

3. It was calculated that a total of 19½ million tons of oil products would be needed by the Empire in the event of a war with Russia in Afghanistan. Far fewer tankers for transportation would be needed, however, than for a war with Japan - partly because a war in Afghanistan would not be a naval war, and because reliance could also be placed on Dutch East Indies supplies (unlike the situation in the event of a conflict with the Japanese). (ibid.)

products to the rest of the world. In addition, in a war with Russia it could not be guaranteed that the British Empire would be able to draw on Rumanian supplies. More serious than these two considerations, however, was the fact that, in such a war, reliance could not be placed on supplies from Persia, from which source the British Empire was then normally importing over 3 million tons of oil products.^{1.}

Against these considerations, however, were the facts that, unlike the situation in which Japan was envisaged as the enemy, war against Russia would not entail the maximum expenditure of naval oil fuel, and moreover, in such a war, reliance could be placed on supplies from the Dutch East Indies and Sarawak. The Oil Board estimated that all military and naval requirements for operations East of Suez could be met from these two sources.^{2.}

In summarising its conclusions on the oil situation in the event of a war against Russia in Afghanistan, the Oil Board referred to the unreliability, in such circumstances, of supplies from Rumania or Persia. It then continued:

The situation, however, should be considerably improved in 1936 if the Iraq Oilfields have then attained a commercial production and the Mediterranean pipe-line has been completed as at present contemplated. ^{3.}

1. Ibid., pp. 28 - 29.

Britain's oil imports from Rumania in 1929 were between one quarter and one half a million tons. (Estimates based on figures from the Files of the Petroleum Information Bureau).

2. Sixth Annual Report of the Oil Board, September 30th 1931 (Annexure "A") p. 30 CAB 50/4. O.B. 71.

3. Sixth Annual Report of the Oil Board, September 30th 1931 (Conclusions) p. 13 CAB 50/4. O.B. 71.

See chapters 10 and 11 for discussion of the Iraq-Mediterranean pipeline project.

In asserting this, it would appear that the Oil Board did not give sufficient weight to the fact that the Iraq oilfields were in fact nearer to Russian territory than were the oilfields of South Persia. However, the fact that the relationships between Britain and Iraq and between Britain and Persia were rather different, and would remain different even after the Iraq Mandate ended in 1932, possibly influenced the Oil Board's thinking on this issue. Persia might be less reliable under Russian political pressure than Iraq would be, since the latter country would have definite treaty obligations to fulfil in the event of a Russo-British war.¹

As noted earlier in this chapter, British strategic thinking, both on oil and on other more general questions, was governed throughout the 1920's by the "Ten Years' Assumption". Throughout this period the Service chiefs had intensely disliked this assumption, since the Treasury was able constantly to invoke it as an argument against any increased expenditure on the armed forces. In the opinion of the Service chiefs this could and did result in British forces, naval and military, remaining in a state of unreadiness and being totally inadequate to meet any emergency which might arise.

1. See the Anglo-Iraqi Treaty of Preferential Alliance, June 30th 1930. Text:- J.C. Hurewitz, Diplomacy in the Near and Middle East Vol. II (Princeton, N.J., 1956) pp. 178-181

The Japanese occupation of Manchuria in September 1931, and the ensuing difficult situation between Japan and the League of Nations, however, led the Service chiefs not only anxiously to examine Britain's preparedness to meet any sudden aggression by Japan, but also to launch a determined attack on the Ten Years' Assumption. This (the Ten Years' Assumption), they declared, had produced a whole series of dangerous results, which included the extremely hazardous situation in the Far East, "a terrible deficiency in essential requirements for all three Defence Services", the decay of the British armament industry, and

a state of ineffectiveness unequalled in the defensive arrangements of any foreign military Power (and) a complete bar to the execution of any policy in Imperial Defence, however urgent. 1.

Eventually, in March 1932, the Cabinet was induced to accept the Chiefs of Staff's recommendations that the Ten Years' Assumption should be cancelled, and that priority should be given to building up the hitherto neglected defensive arrangements in the Far East.² However, this did not mean that the British Government was immediately going to set about remedying all the deficiencies of its forces, as an extract from the Cabinet minutes

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1. Committee of Imperial Defence, Annual Review for 1932 by the Chiefs of Staff Sub-Committee, February 23rd 1932, pp.4,10.CAB 24/229.CP104.
 2. (The Review had contained the following striking remark:-
"Recent events in the Far East are ominous. We cannot ignore the Writing on the Wall").
Cabinet Minutes, March 23rd 1932. CAB 23/70. 19(32)2.

shows:-

The Cabinet recognized ... that this (cancellation of the Ten Years' Assumption) must not be taken to justify an expenditure by the Defence Services without regard to the very serious financial and economic situation that still obtains. 1.

If the Services wanted anything, it was apparent that they would still have to fight very hard for it - and this applied to, inter alia, the provision of adequate oil product reserves.

It has been seen in this chapter that British thinking on strategic oil questions was largely dominated by the conflict between, on the one hand, the Admiralty's strategic needs, and, on the other, the need for careful control of financial outlay. While the Admiralty persistently demanded that its oil reserves be completed at something approaching the rate initially envisaged, and reinforced its arguments by ensuring that its views were given full weight in the Oil Board's strategic studies, nevertheless it had little chance, in the prevailing economic situation of the 1920's and early 1930's of achieving its aims. As long as the international situation remained apparently quiescent there was little prospect of any change in the attitude of successive Cabinets towards Admiralty demands, countered as they always were by Treasury pleas of economy. In a different sphere, the need to maintain amicable relations with other Powers - including especially the United States - were also important

1. Ibid.

considerations in British oil policy. British sources could not supply the Empire with sufficient oil, hence in time of war much reliance would have to be placed on supplies from friendly neutrals.

Linked to some extent with all these aspects was the question of Middle East oil. While Persian oil seemed to be so favourably placed strategically as greatly to influence the Admiralty's contingency planning, the hoped-for Iraqi oil had a similar strategic value - both sources were situated in close proximity to likely theatres of action. Also, it will be recalled, the Admiralty's financial burden was to some extent lessened by its pre-war supply contract with the Anglo-Persian Oil Company.¹

All these aspects were important in themselves, and were closely inter-linked. They should be borne in mind when, in the succeeding chapters, British oil policy in the Middle East is explained in detail.

1. See Introduction (above).

CHAPTER 3

MESOPOTAMIA AND BRITAIN'S SEARCH FOR AN OIL POLICY 1919 - 1923I Middle East territorial rearrangements 1919-22

With the successful termination of the war, arrangements for the government of the territories of the former Ottoman Empire had to be made. Even apart from any question of oil, settlement of these territories was complicated by several factors. Victory over the Turks had been achieved largely by British arms, a fact which enhanced the claims of British statesmen to have a strong voice in any settlement of what they considered to be an area of great strategic importance. Britain wanted control of Basra, at the head of the Persian Gulf, and, partly to protect this area, Baghdad and Mosul, areas which were useful strategically, and, furthermore, had vast potential for such things as grain and cotton (and oil). In addition, control of Palestine and Jordan would be useful as affording safe communication from Mesopotamia (Iraq)¹ to the Mediterranean. It would also give access to Egypt and the Suez Canal, and help to protect them from any likely enemies to the north. The maintenance of British

1. The names "Mesopotamia" and "Iraq" were both used in British Government circles in the years immediately following the Armistice, but "Iraq" was the term most often used after 1921.

control and influence in these areas would be expensive, but this would be preferable to allowing France or Italy to have control. In any case, it was felt, large expense would not be a permanent feature, since in time full native Arab administrations, loyally allied to Britain, would be able to take over the burdens of government.¹.

By the Sykes - Picot Agreement, concluded by British and French representatives in May 1916, Britain was to gain control of parts of Palestine, and was to have the predominant influence over an area reserved for the establishment of Arab states. France was to gain control over parts of Syria, and was to have the predominant influence over the remaining Arab reserved area. Included in this French "Sphere of influence" was the vilayet of Mosul which, as has been pointed out, was coveted by the British as the war came to an end.².

Immediately after the war, taking full advantage of France's desire for security in Europe, and of her exhausted condition

1. The British Government as a whole does not seem to have had any very clear idea as to exactly how long the mandate system would need to be in operation before Iraq could stand on its own without British tutelage.

On the question of general British aims see:
J. Nevakivi, Britain, France and the Arab Middle East
(London, 1969) Chapter 5 (pp. 89-103).

2. The text of the Sykes-Picot Agreement may be found in Hurewitz, op. cit., Vol. II, pp.18-22.

Possibly in 1916 the British allowed France to lay claim to Mosul in order that French territory might form a buffer between Russia and areas of British influence. After 1917, of course, this safeguard might have seemed less necessary.

after the war, and mindful of the strength of Britain's position in the disputed area, the British managed to secure the abandonment of the Sykes-Picot Agreement. In 1920 the provisional boundaries of control between the two rivals were agreed, Britain retaining control of Mosul within the boundaries of Mesopotamia, which was to be a British mandate, while the boundary between Palestine, which was to be British mandated territory, and Syria, which was to be a French mandate, was also tentatively settled. Included in the whole arrangement was an agreement relating to Anglo-French oil exploitation in Mesopotamia and elsewhere.^{1.}

Meantime, however, a peace treaty with Turkey had to be concluded, and as the defeated nation Turkey would have little say as to its terms. The treaty eventually signed by Turkish representatives at Sèvres in August 1920 was a dictated peace, providing not only for the detachment from Turkey of a considerable portion of the former Ottoman Empire, but also for the establishment of spheres of influence for the Allies in Turkey itself.^{2.}

1. Parliamentary Papers (H of C) 1921 (Cmd 1195) xlii, 669. "Franco-British Convention of December 23rd 1920 on certain points connected with the Mandates for Syria and the Lebanon, Palestine and Mesopotamia". (For the Oil Agreement, see below).

2. For the text of the Treaty of Sevres, see Parliamentary Papers (H of C) 1920 (Cmd 964) Li, 609. "Treaty of Peace with Turkey, signed at Sèvres, August 10th 1920".

The rise of Kemal Pasha and the Nationalists, and their creation of a new, virile Turkey, rendered much of the Treaty of Sèvres inoperable, however. Greek and Italian hopes of great gains at Turkey's expense were dashed, while the Turks also strongly pressed their claim for the retention of Mosul, thereby encountering strong British opposition. The Turks also clashed with the French in Cilicia, but eventually secured some measure of agreement and cooperation with them. This Franco-Turkish cooperation in turn led to strain in Anglo-French relations, since while on the one hand the British sought to keep Turkey impotent on the international scene, on the other hand France sought to uphold and strengthen Turkey, and to use her as a means of extending French influence in the Middle East.^{1.}

The rise of the Turkish Nationalists led to war between Greece, who had established herself in Smyrna, and Turkey. However, in October 1922, the Greeks having been defeated, an Armistice was concluded at Mudania. The way was thus clear for the Allies to conclude a fresh treaty with Turkey, and for this purpose a Conference met at Lausanne in November 1922.^{2.}

1. Shwadran, op. cit., pp. 217-219.

2. H.W.V. Temperley, A History of the Peace Conference of Paris (6 vols: London, 1920-24) Vol. VI, p.104.

By this time, the League of Nations had formally approved the mandates decided on by Britain and France in 1920. In order to placate Iraqi opinion, however, British-Iraqi relations were regulated not by a specific mandatory instrument, but by a treaty concluded in 1922 between King Feisal and the British Government. This treaty was to come into force on ratification by the Iraqi Constituent Assembly.^{1.}

Britain thus gained all she sought by way of territorial control in the Middle East - more, indeed, than was perhaps strictly necessary or wise, in view of the expense involved.^{2.} As for the potential oil-bearing territories of the area, they were now, assuming Mosul remained in Iraq, secure, and Britain was in a strong position regarding the decision as to who should exploit them.

1. Text of the Anglo-Iraqi Treaty of October 10th 1922 in: Hurewitz, op. cit., Vol. II, pp.111-114.

2. Sir Henry Wilson wrote on December 13th 1920: "I never saw the Cabinet in a worse plight. They had decided to remain in Mesopotamia and Persia ... Now they find that the House of Commons and the public will not stand the sinful waste of life and money; and so now they must come out ..." (It was too late then, however).
(Sir C.E. Callwell, Field Marshall Sir Henry Wilson, His Life and Diaries Vol. II (London, 1927) p.273.

II British Oil Policy in Confusion

British policy in relation to Middle Eastern oil cannot be fully explained without first pointing out that if Britain had a policy with regard to oil at all, it was, to say the least, a very vague and confused one. British statemen knew that oil was a vitally important commodity, and they knew that large quantities were expected to be found in Mesopotamia. Thus it was realized that British interests must somehow control the exploitation of oil in this area - but as to how this was to be effected or what concrete plans should be made to secure these aims, all was undefined and obscure. Even when, in 1919, an agreed policy appeared to have been formulated by the Petroleum Imperial Policy Committee, this agreed policy was later suddenly abandoned and the whole question left undecided. This confusion was partly due to changing circumstances, and the interplay of various outside factors - such as pressures on Anglo-French and Anglo-American relations - but other reasons lay in divergences of opinion within the British Government itself, and, perhaps, at times in a certain inertia and lack of coherent thought on the subject, especially in Cabinet circles.

The issues involved in the oil questions, even when territorial questions had been settled, were generally complex. Their resolution required expert knowledge and a sound grasp of the intricate details of both the current situation and of

the previous history of the questions. For this reason, what may be termed the "policy" (for want of a better word) of the British Government on oil questions was largely determined by the permanent staffs of the Foreign Office, the Colonial Office, the Petroleum Department, the India Office (and others), after full consultation with each other, generally on a day-to-day basis, rather than by the political heads of those Departments. With the exception of the Mosul question (which was not primarily an oil question), the Amalgamation question (1918 - 24), and the Pipeline question (1928 - 31), it was rare for questions involving oil to come before the Cabinet for decision, and the "policy" of His Majesty's Government was determined more by the considered opinions of such men as E. Weakley, L. Oliphant, J. Clarke, and J.E. Shuckburgh than by the "big guns" such as Lord Curzon, Austen Chamberlain, Amery,

Churchill or Stanley Baldwin.¹ This was no doubt the case also for many other questions of similar complexity, but it is well to note the way in which British oil "policy" was actually determined in view of the fact that some writers, both at the time and since, have tended to see in British actions concerning oil some sort of grand design, or sinister motivation.² No doubt behind all the day-to-day decisions of the Government Departments was some overall motivating idea, but it was not any precise deeply laid and intricately formulated scheme which was followed, but rather the general principle behind every government's actions - the protection of what it considered to be the nation's interest.

The above considerations should be borne in mind when examining British oil policy in the Middle East. With regard to this present study, it should be noted that, as very detailed accounts have been given of both general Anglo-French relations³ and of negotiations

1. On the Mosul, Amalgamation, and Pipeline questions, see Chapters 4, 6, 8, 10 and 11 (below).

E. Weakley had been a Commercial Attache in Constantinople until the outbreak of war in 1914. He was thereafter employed in the Foreign Office until December 1923 (in what capacity it is not stated in the Foreign Office List, but he was probably of similar status to Oliphant).

L. Oliphant was Assistant Clerk in the Foreign Office; then Acting Counsellor; Counsellor Sept. 24th 1923; Under Sec. State April 1929.

J. Clarke was employed on the staff of the Petroleum Dept. until 1924.

J.E. Shuckburgh was Acting Asst. Under Sec. Colonial Office 1921; Asst. Under Sec. 1924; deputy Under Sec. 1931.

Lord Curzon Act. Sec. State Foreign Affairs Jan. 1919; Sec. State F.A. Oct. 1919 to 1924.

Austen Chamberlain Sec. State For. Affairs Nov. 1924-1929.

L. Amery Sec. State for Colonial Affairs 1924-25, 1925-29.

W.S. Churchill Sec. State for Colonial Affairs Feb. 1921 to Oct. 1922.

S. Baldwin President Board of Trade April 1921-Oct. 1922; Prime Minister May 1923 to Jan. 1924, Nov. 1924 to June 1929.

(N.B. Only relevant posts given).

2. For example Davenport and Cooke, op. cit., and M. Brooks, Oil and Foreign Policy (London, 1949).

3. Nevakivi, op.cit.

specifically regarding oil up to the Conference of San Remo of April 1920,¹ this chapter will not cover events up to that date in more detail than is strictly necessary for a full understanding of events afterwards.

As has been noted earlier, the Turkish Petroleum Company had secured, in 1914, the promise of an oil concession for the vilayets of Mosul and Baghdad. The composition of the Turkish Petroleum Company had also been the subject of various negotiations, and the Foreign Office Agreement of March 1914 had apportioned 50% of the shares to the Anglo-Persian Oil Company, 25% to the Anglo-Saxon Petroleum Company, and 25% to the Deutsche Bank (together with a proviso regarding Gulbenkian's 5% share). War had prevented any completion of the concession negotiations with the Turks, and, moreover, the shares in the Turkish Petroleum Company, as determined by the Foreign Offices Agreement, had never actually been taken up. In 1915, in fact, the Foreign Office had informed the Anglo-Persian Oil Company that it considered the Foreign Office Agreement to be no longer valid.²

With the collapse of Turkey in 1918, and British advances into Palestine and Mesopotamia, the British Government gained a definite ascendancy in those areas. It thus felt justified

1. Kent, op. cit.

2. Minute by Morgan, October 2nd 1926. FO 371/11456/27/5404.

in deciding who would or who would not participate in the development of any oilfields found there. On November 14th 1918 Cadman (at this time a member of the Petroleum Executive) suggested to the Petroleum Imperial Policy Committee that it might be advisable for the Government to secure the Deutsche Bank's shares (then held by the Public Trustee) and use them as a bait to interest the Royal Dutch-Shell group in proposals linking Mesopotamian oil shares with British control of that group.¹ The Foreign Office, however, was worried in case, by thereby seeming to recognize the validity of the Turkish Petroleum Company and the Foreign Office Agreement of 1914, it should encourage other claims regarding pre-war arrangements and compromise any stand it might wish to make against such claims.²

Discussions on the wisdom or otherwise of maintaining the validity of the Turkish Petroleum Company's concession took place in November and December 1918, during which the idea was mooted of treating the whole question de novo and getting a fresh concession from the new Arab State to be set up. Finally, however, it was decided that the best course would be to uphold the validity of the Turkish Petroleum Company (though not

1. Report and Proceedings of the Petroleum Imperial Policy Committee, p. 69, FO 368/2255/file 87990/141764.

2. Ibid. loc. cit. (Chairman's remarks).

necessarily the 1914 Agreement) and hand the Deutsche Bank's shares to the Anglo-Persian Oil Company, leaving the remaining 50% in the hands of the Anglo-Saxon Petroleum Company.¹ At the end of December, therefore, the Deutsche Bank's shares were secured by a government nominee.²

Upholding the validity of the Turkish Petroleum Company's pre-war claim was one of the most important features of British oil policy in the Middle East during the period 1918 to 1925. The British Government was to go to great lengths, incurring the dangerous hostility of the United States, to defend this claim. Yet, even in this important feature of its policy the British Government was by no means consistent (as will be seen later), a fact which illustrates the lack of any really carefully formulated basic policy, other than the general principle of securing British interests, in relation to oil questions.

The claim which the British Government so assiduously supported was not by any means water-tight, and there can be no doubt whatsoever that, had it suited its interest at the time, that Government would have had no scruples of a legal nature in

1. Originally the Deutsche Bank and the Anglo-Saxon Petroleum Company had each held 25% of the shares, with the National Bank of Turkey holding 50% (including Gulbenkian's shares). When the National Bank withdrew in 1914, the Deutsche Bank and the Anglo-Saxon Petroleum Company each secured 50%, pending the implementation of the Foreign Office Agreement of March 1914.

2. Report and Proceedings of the Petroleum Imperial Policy Committee, pp. 84, 87. FO 368/2255/87990/141764.

abandoning and even challenging the Turkish Petroleum Company's claim. By no stretch of imagination could the Grand Vizier's letter of June 28th 1914 be deemed an actual grant of a concession, and by the outbreak of the war negotiations towards this end had not progressed very far, so that at best the claim amounted only to the promise of a concession, giving possibly a moral right (for what that might be worth) but certainly not a legal right to a concession. While no doubt the British Government's contention that that promise had the binding force of a diplomatic understanding between sovereign powers¹. did perhaps convince British Government officials of the correctness of their own attitude, nevertheless this argument must still have appeared to unbiased observers to be somewhat sophistical.².

1. Since the promise was given to the British and German diplomatic representatives by a representative of the Turkish Government (See Introduction, above).
2. Not all the British officials concerned seemed entirely convinced of the British case. See for example a minute by Lindsay (in the American Dept. of the F.O.) in July 1923, in which he refers to the Turkish Petroleum Company's "rather dubious concession" - against which Eyre A. Crowe wrote, "But surely we do not consider it dubious!"

(Minute by R.C. Lindsay, July 10th 1923.
FO 371/9086/1/7114).

The reasons for the decision at this stage to support the claim of the Turkish Petroleum Company were fourfold. In the first place the Deutsche Bank had had certain oil rights under a Convention of 1903 relating to the construction of the Baghdad Railway.¹ If the Turkish Petroleum Company's claims were abandoned by the British Government, therefore, whoever acquired the pre-war Baghdad Railway rights might be able also to lay claim to the oil rights -- and as the French had claims in this direction, the question might become awkward.² Secondly, unless some arrangement concerning the Turkish Petroleum Company itself were made, the Royal Dutch-Shell would be able to put forward a claim that that group now owned all the shares in that Company.³ While such a claim might not in itself be of great

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1. Article 22 of the 1903 Baghdad Railway Convention stated that: "The concessionaires may work any mines which they shall discover within a zone of 20 kilom. each side of the middle of the line" The text of the Convention is in Hurewitz, op. cit., Vol. I, pp.252-263.
 2. (Memo by L. Mallet on Mesopotamian Oil (n.d.) printed in Report and Proceedings of the Petroleum Imperial Policy Committee pp. 86-87. FO 368/2255/87990/141764.
 3. Ibid., p.87.
The Anglo-Saxon Petroleum Company, already 50% shareholders, could put forward some claim to possess the Deutsche Bank's shares under Article 36A of the Turkish Petroleum Company's Articles of Association, which stipulated that, should any one group retire from the Company, its shares must first be offered to the remaining groups.

moment, since without diplomatic support the Royal Dutch-Shell could hardly have got far in its claim, the dispute with Shell which would result would probably vitiate British Government schemes at that time being put forward, to gain control of that group (see below).

Thirdly, the problem of French claims mentioned above was not confined to any rights attached to the Baghdad Railway concession. France, too, had read the lessons of the war, and fully appreciated the importance of oil in the post-war world. Consequently the French Government was engaged in developing an oil policy of its own,^{1.} and

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1. France had only minor amounts of indigenous oil (47,000 metric tons in 1919), and uncertain prospects elsewhere in her Empire - although there were believed to be large quantities in Algeria. She was to seek to ensure her safety by encouraging oil prospecting in France, regulation of her internal oil trade, and the use of alcohol and other substitutes. External measures included participation in the development of Mesopotamian oil, and attempts at cooperation with British interests in Rumania and elsewhere.

For the general French attitude to oil after the war see:-
E.L. Woodward and R. Butler (editors) Documents on British Foreign Policy 1919 - 1939 (hereinafter abbreviated to D.B.F.P.) 1st Series, Vol. IV, pp. 1111 - 1113.

Report by Major R.L. Sherbrooke, "France and the Petrol Question" December 8th 1922. FO.371/9405/151/151.

H. Berenger, Le Petrole et la France (Paris 1920).

R.F. Kuisel, Ernest Mercier, French Technocrat (Berkeley and Los Angeles, 1967).

in its schemes the oilfields of Mesopotamia had a part to play. This was known, or at least suspected, in British Government circles.^{1.} If the British Government had some definite policy with regard to the Turkish Petroleum Company, it would facilitate arrangements with the French. This was especially necessary since the British themselves intended to seek concessions from the French, both in the matter of securing the abandonment of the Sykes-Picot Agreement of 1916, and concerning wayleaves across French-controlled territory for oil pipelines (from both Mesopotamia and Persia), and for railways.^{2.} By supporting the Turkish Petroleum Company's claims, and by itself acquiring the Deutsche Bank shares, it would be possible for the British Government to bargain with the French, using the ability to allocate the former German shares in the Turkish Petroleum Company as a means of obtaining the desired quid pro quo.^{3.}

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1. See particularly Cadman's remarks on November 14th 1918 and December 13th 1918: Report and Proceedings of the Petroleum Imperial Policy Committee, pp.68, 84. FO 368/2255/87990/141764.
 2. The Chairman of the Petroleum Imperial Policy Committee, Lord Harcourt, seems at this stage to have had difficulty in appreciating the hard realities of the situation - and no doubt he was not the only British official at this time who was having difficulty in reconciling what was desirable and what was practicable. While on the one hand Harcourt had urged the Foreign Office to "secure some alteration in (Britain's) favour of the Sykes Agreement ... (and to get) permission for a pipeline of (Britain's) own to go across the French sphere ...", on the other hand he had "pressed the Foreign Office not to let the French into Mesopotamia, and urged that we wanted to keep as much oil as we could in the world for ourselves." (Ibid., pp.82, 83).
 3. See the remarks of Cadman to the Petroleum Imperial Policy Committee, December 13th 1918. (Ibid., p. 84). Rumanian oil also played a part in British deliberations (see Ibid., p. 88).

A fourth reason for supporting the Turkish Company's claims was the fear that American oil interests (which were now showing signs of activity in the Middle East) would "make great difficulties, and ... set up large claims in Mesopotamia".^{1.} The Company's exclusive concession for the Mosul and Baghdad vilayets, if upheld, would effectively block any such attempts. The fact that this would arouse the hostility of the United States Government which, urged on by the American oil interests, would vociferously clamour against British monopoly and demand the "Open Door", was realized in British Government circles - though perhaps the full extent of the later "Oil War" was not foreseen - but it served at this stage rather to make more urgent the intended cooperation with France (so as to obviate a Franco-American 'oil entente') than to deter the British from their plans to uphold the Turkish Petroleum Company.^{2.}

Thus, then, the need to prevent outsiders from acquiring claims to Mesopotamia's oil through the disputed Baghdad Railway rights, to keep at bay possible Shell claims, to bargain with the French over the Sykes-Picot Agreement, and to counter possible American pretensions, served as powerful motives in December 1918

1. Captain Samuel (Shell Transport and Trading Company) in conversation with Lord Harcourt.
(Ibid., p.82.)

2. See Lord Harcourt's remarks on January 20th 1919 (Ibid., p.88).

for the British to uphold the validity of the Turkish Petroleum Company's pre-war claims to Mesopotamian oil rights. Meanwhile, other important aspects of British oil policy were also being dealt with.

During 1918 negotiations had been proceeding between the Petroleum Imperial Policy Committee and the Royal Dutch-Shell group, on the basis of the latter getting an increased share in Mesopotamian oil in return for the latter becoming British - controlled. These negotiations eventually terminated in the conclusion of a Provisional Agreement on January 31st 1919 which, after undergoing some modification, was finally approved by the War Cabinet on May 8th 1919.¹.

1. For the negotiations see ibid. pp. 11-16, 96-102. One of the factors influencing the Government's actions was knowledge of French negotiations with the Royal Dutch-Shell. (ibid., pp. 68, 88).

For the Cabinet decision see: War Cabinet Minutes, May 8th 1919.

CAB 23/10/Meeting No. 564/Minute (1).

Under this Agreement the shares in the Turkish Petroleum Company were to be distributed as follows:- Anglo-Persian Oil Company 34%, Anglo-Saxon Petroleum Company 34%, His Majesty's Government 2%. There was thus provision for 30% to go to other interests (see below). The Anglo-Persian, Anglo-Saxon, and the Government votes were to be put into a Voting Trust, the majority vote of which was to determine the way the whole 70% block should vote. Thus, in theory, if the Anglo-Persian and the Government votes combined, they would have a majority of the Voting Trust, which would then cast its whole 70% vote in the way in which the Anglo-Persian Company and the Government wished. British control of the Turkish Petroleum Company was thus

1.
secure.

2.
In return for its increased participation, the Royal Dutch-Shell Group agreed to various safeguards whereby the Shell Transport and Trading Company (one of the major Shell companies) would remain

3.
permanently British, with 75% of its directorate British-born subjects.

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1. In view of the British Government's holding in the Anglo-Persian Oil Company, the Government's control of Mesopotamian oil development would, of course, have been almost complete in matters where control was desired. However, Shell was to have the management of the Company for the first seven years.
 2. Shell originally had held 25% of the shares (22½% under the Foreign Office Agreement of March 1914) instead of the 34% now planned.
 3. No change of directorate was to take place without the consent of the Governor of the Bank of England. There were safeguards also against any transfer of the Company's assets to foreigners.

The Shell Transport and Trading Company would then assume control of all the companies then controlled by the Anglo-Saxon Petroleum Company, and special arrangements were to be made to ensure their British character.¹ By this means all the Royal Dutch-Shell subsidiaries operating outside Dutch territory, or Rumania,² would come under British control.³

This Agreement was meant to lay the foundation of Britain's post-war oil policy, and, it was hoped, it would even make the British Empire independent of the United States within ten years. Yet, as Dr. Kent remarks in her thesis,⁴ the Agreement was still only in general terms, and many details would have had to be filled in before it could come to fruition.

While the negotiations with the Shell group were going

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1. Certain Dutch-controlled companies were to be re-constituted under British control. All the companies concerned were always to have a majority of British directors, and a "British nominee" with special voting powers was to be appointed.
 2. Certain special provisions were to be made regarding Shell's "Astra Romana" company in Rumania.
 3. Petroleum Executive Memorandum for the War Cabinet, "The Acquisition of British Control over the Royal Dutch-Shell Group." February 22nd 1919. CAB 24/76. GT. 6961.
 4. Kent, op. cit., p. 306.

forward, the arrangements with the French necessary to the success of the British scheme were also under consideration. Following tentative discussions between Mr. Long and M. Berenger,^{1.} and between Cadman and Berenger, in November and December 1918, concerned with British and French oil interests (actual or prospective) in Persia, Algeria and Mesopotamia,^{2.} the first concrete step towards an Anglo-French Oil Agreement was taken in a formal note from the French Ambassador to the British Foreign Office, dated January 6th 1919.

The French note, after a brief mention of the "grave inconvenience of the French position as regards petroleum", expressed a desire for an Anglo-French Agreement on a common oil policy, which would involve, inter alia, the help and encouragement of French groups to take shares in oil companies operating in various different countries. "Conversations have already taken place on this subject with the Royal Dutch

1. W.H. Long was head of the British Petroleum Executive at the time.
M. Berenger was Commissioner-General of Petroleum Products in France.

2. Note of a meeting in Paris, December 17th 1918.
FO 368/2095/3251/3593.
For an account (which, however, must be treated with caution) of Gulbenkian's influence on French thinking at this time see N.S. Gulbenkian Pantaraxia (London, 1965) pp.87-88.

Company", continued the note - somewhat ominously for British plans. The note finally asked specifically for the allocation to France of the Deutsche Bank's shares in the Turkish Petroleum Company.^{1.}

At the time, as has been mentioned earlier, there was great concern in British official circles to discard the "iniquitous"^{2.} Sykes-Picot agreement, the Admiralty in particular, with an eye on pipeline possibilities, urging its abandonment.^{3.} A verbal agreement of December 1918 between Clemenceau and Lloyd George, whereby the Sykes-Picot agreement would be modified and, inter alia, Mosul would be administered by Britain, had been kept a close secret at the time,^{4.} even from the Foreign Office. Doubtless with the idea of using the inception of oil negotiations as a lever to induce the French to make territorial concessions, therefore, the Foreign Office advocated that the Government should refuse entirely to discuss the oil questions until the territorial questions had been solved - a procedure which, though hardly possible in view of the French attitude, certainly would

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1. French Minister in London to Secretary of State for Foreign Affairs, January 6th 1919. FO 368/2095/3251/3251.
 2. Minute by Lord Curzon, January 29th 1919. FO 368/2095/3251/12790.
 3. Admiralty Policy in Relation to the Peace Settlement, January 1919, p.18. ADM 116/1861.
 4. See: Eustace Percy to Sir G. Clark, June 5th 1919 and Minute by Villiers, June 11th 1919. FO 368/2095/3251/85781.

have had the virtue of simplifying matters a little. The Foreign Office view did not prevail, however, and an inter-Departmental Conference held on January 15th decided that the French should immediately be informed that the British Government was willing to come to an understanding on the oil question, although it was conceded that any detailed scheme would have to be left until after the Peace Conference.^{1.}

The reasons for this decision are clear:

The French Government are understood to be negotiating not only with His Majesty's Government but with the U.S. Government, and the Standard Oil were stated to be actively attempting to secure increased holdings outside America

The Conference considered that His Majesty's Government should at once signify its willingness to cooperate before France secured American assistance and before this country was forced by decisions at the Peace Conference to adopt in self-defence and practically under compulsion the policy to which it was now invited... 2.

3.

Despite Foreign Office opposition, therefore, the Petroleum Executive proceeded to negotiate with French representatives, and, notwithstanding the fact that, supposedly, no details were to be discussed, the outcome was the signature on April 8th 1919 of the Long-Berenger Petroleum Agreement.

The Agreement declared Anglo-French policy to be based on the principles of "cordial cooperation and reciprocity", relating to Rumania, Asia Minor, and British and French Colonies; an extension to

1. (At the Conference, however, it was emphasised that no discussion with the French on the subject of the Anglo-Persian Oil Company's concession must be entertained).

2. Conference at the Admiralty to discuss the French request for a common policy regarding oil, January 15th 1919.
FO 368/2095/3251/12790.

3. See: Memo on the History of the Long-Berenger Agreement (being an enclosure to Document 684) in D.B.F.P., 1st series, Vol. IV, pp.1093-1094. Unsigned, Undated Memo, FO 368/2095/3251/23803. Minute by Curzon, March 19th, 1919, FO 368/2095/3251/41123.

other areas, such as Galicia and Russia, was also envisaged. With regard to Mesopotamia, "in the event of His Majesty's Government receiving the mandate...", the British Government undertook to uphold the Turkish Petroleum Company's rights with the Mesopotamian Government. The shares in that Company were to be distributed as follows:- British interest 70%, French interest 20%, Native Government interest 10%. There was also a provision for Native private interests to participate up to 10%.¹ The Company was to be "under permanent British control". In return the French Government agreed to facilitate the passage of two pipelines (one from Mesopotamia, one from Persia) through French mandated territory, should such passage be desired.² It also seemed to be understood that Mosul would be included in Mesopotamia.

This Agreement thus fitted in with the British Government's Agreement with Shell, and seemed to mark another important step in British oil policy.³ But then the whole arrangement

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1. This 10% to come from participating groups in proportion to their holding.
 2. The text of the Long-Berenger Agreement of April 8th 1919 may be found in D.B.F.P., 1st Series, Vol. IV, pp.1089-1092.
 3. The Foreign Office, however, opposed the Agreement for some time, being worried about, inter alia, the lack of any provision for American participation in the Mesopotamian arrangement. See D.B.F.P., 1st Series, Vol. IV, p.1094.
Minute by Kidston, March 1919 and Memo prepared by Kidston April 23rd 1919.
 FO 368/2095/3251/41123 and 56571.

was shattered by a "first class dog fight"^{1.} between Clemenceau and Lloyd George at Paris on May 21st and 22nd over the settlement of the Syrian frontier, Clemenceau attacking what he considered to be British efforts to take more territory than they were entitled to "in order that the British might construct a railway".^{2.} The oil negotiations were dragged into the discussion, and as a result Lloyd George later wrote to Clemenceau cancelling the Agreement of April 8th on the grounds that the negotiations were a departure from the verbal agreement of the previous December by which Clemenceau had agreed to the modification of the Sykes-Picot Agreement.^{3.}

There followed a period of much confusion in the Foreign Office and the other Government departments, with considerable doubt existing as to whether or not the Anglo-French Agreement was still in being. This was not finally resolved until, following an official Anglo-French exchange of letters, the Cabinet met on August 20th and confirmed the annulment of the Long-Berenger Agreement.^{4.}

1. Callwell, op. cit., Vol. II, p.194.

2. Notes of a Meeting in Paris, May 21st and 22nd 1919
CAB 29/38/1, CF 20A (pp. 581-584), CF 22B (p.611).

3. Eustace Percy to Sir G. Clark, June 5th 1919 (enclosing letter Lloyd George to Clemenceau, May 21st, 1919)
FO 368/2095/3251/85781.

4. Curzon to French Ambassador in London, July 22nd 1919 and French Charge d'Affaires in London to Curzon, August 12th 1919, in D.B.F.P., 1st Series, Vol.IV, pp.1101, 1110.
Extracts from Minutes of War Cabinet Meeting, August 20th 1919.
FO 371/4233/file 109301/109356.

However this might be, in British Government circles the fear of a possible Franco-American entente on oil (and other matters) persisted, strengthening an already growing feeling that the Anglo-French Agreement of April 8th ought to be revived. In December 1919, the British made tentative approaches to the French ^{1.} and succeeded in reviving the oil talks, resulting on December 21st in the conclusion of a new agreement - signed by Sir Hamar Greenwood and Henri Berenger - which was basically the same as that of April 8th. The French were now to have 25% participation in the Turkish Petroleum Company, but this increase over the earlier agreement was purely nominal, since the French would have to provide half of the first 10% of native interest shares should such interests desire to participate. Also, in addition to the provision of pipeline facilities, the new agreement gave similar facilities for railway construction. ^{2.}

Whatever the vicissitudes in Anglo-French relations may have been, one facet of British oil policy seemed at this point

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1. Note of a conversation between the Prime Minister and M. Louchet, December 3rd 1919. CAB 21/158.
Cabinet Minutes, December 10th 1919. CAB 23/18. C 12(19)18.
 2. Memorandum of Agreement between Sir Hamar Greenwood and Senator Henri Berenger, D.B.F.P., 1st Series, Vol. IV, pp.1114-1117.

to be clear - that the British Government would uphold the claims of the Turkish Petroleum Company to work the oilfields of Mesopotamia. Yet, such was the confused state of British oil policy at this period that, within a month of the signature of the Greenwood - Berenger Agreement, yet another remarkable change in that policy was made.

On January 23rd 1920 a Conference of Ministers considered a suggestion that

the oil resources of Mesopotamia were so extensive that sufficient revenue should be forthcoming from them to pay for the whole administration of the country, and for that reason private exploitation should be prevented

After some discussion the Conference

were of opinion that as a matter of principle the profits arising from the exploitation of the oilfields of Mesopotamia should accrue for the benefit of the State rather than for the benefit of Joint Stock Companies...

and it was decided that the War Office should proceed with a survey of the Mesopotamian oilfields, and that all prospecting was to be done on behalf of the State. ^{1.}

1. Minutes of a Meeting of a Conference of Ministers, January 23rd 1920. FO 371/4231/102161/174193. (Alternative reference: CAB 23/20. 8/20) Appendix II (17).

This meant a complete change of policy by His Majesty's Government. Hitherto the keystone of the Government's policy had been support of the Turkish Petroleum Company's claims, and on that basis both the Agreement with the Royal Dutch-Shell group and the understanding with the French had been framed. Now, it seemed, the Turkish Petroleum Company's claims were to be abandoned, and the agreements which had been built around those claims were to be "knocked on the head". Moreover, according to the Under-Secretary^{1.} of State in the Foreign Office, Hardinge, "that (was) the intention". True, with regard to the Anglo-French Agreement the minutes of the Ministerial Meeting reveal that "there was no objection to the proposed assignment of a percentage share of the interest in the oilfields of Mesopotamia to the French Government"^{2.}, but the percentage actually allotted to the French in the agreements of April 8th and December 21st 1919 had been determined on the basis of participation in the Turkish Petroleum Company, to whose shares the Anglo-Persian and Shell companies had certain claims. If private companies were to be excluded, then the whole basis on which the French accepted a minority share would be altered, and hence the already existing agreement of

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1. Foreign Office Minute, January 29th 1920 and Minute by Hardinge, January 29th (?) 1920. FO 371/4231/102161/174193.
 2. Minutes of a Meeting of a Conference of Ministers, January 23rd 1920. FO 371/4231/102161/174193.

December 21st 1919 could no longer be considered as in force. This
^{1.}
 point was emphasised later by the French.

The decision of the Meeting (if, indeed, it can strictly be termed a "decision") is a puzzling one in some respects, although the idea of working the oilfields under state control was not an entirely new one at this time, for it had been tentatively suggested by Arnold
^{2.}
 Wilson in April 1919. According to notes written by Sir G. Barstow (of the Treasury), the Prime Minister, Lloyd George, was principally responsible, having been

much influenced by a statement made to him by Sir John Cowans (now of the Shell Company) that 'a million a week' might be made from Oil in Mesopotamia.

In Barstow's opinion, however, such figures were "probably sheer fairy tales", and, he wrote:

We should pay dearly for this oil if we have to keep garrisons costing £10,000,000 a year in order to secure it. But the prospect of Oil in Mosul is evidently having a great influence on our Mesopotamian policy. ^{3.}

The decision certainly reflected the British Government's growing concern with the financing of its many commitments abroad: financial solvency was going to be, it appeared, an aim which cut across other matters of high policy and strategic thinking - as the naval oil

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1. Memo by Kellaway (Minister in charge of Petroleum Dept.) April 22nd 1920. FO 371/5086/20/14471 (Enclosure CP. 1118).
 2. Memo by Weakley of a Meeting at the India Office (April 8th 1919) April 9th 1919. FO 371/4209/19165/52582.
 3. Great Britain, Public Record Office, Treasury, Memo by G. Barstow (n.d., but evidently written April 21st 1920) and Note by G. Barstow, April 21st (?) 1920. T. 172/1387.

reserves controversy was also to prove - and the grand plan of securing independence from foreign oil companies in ten years (by the Shell Agreement) was now to be sacrificed to the financial needs of the Mesopotamian administration and the military forces needed for its protection.

The later San Remo Oil Agreement, however, reveals most clearly one peculiar characteristic of British oil policy in these years - its indecisiveness. Despite the apparent decision on state working just referred to, this Agreement still envisaged the possibility of private interests working Mesopotamian oil, and provision was made in the Agreement for satisfying French interests in both eventualities^{1.}

- State or private working.

The Agreement which the British and French Governments concluded at San Remo on April 24th 1920 was essentially the same as the earlier Greenwood-Berenger Agreement. It helped to clarify the French position in view of the change in British oil policy since December 1919. The Agreement envisaged Anglo-French cooperation in Rumania, Asia Minor, "territories of the old Russian Empire", Galicia, and in French and British Colonies. It included the same clauses concerning pipeline and railway facilities as had the previous agreement and, apart from the omission of any specific mention of Pearson's Algerian^{2.} concession (included in the earlier agreement) the only noteworthy

1. Article 7 of the San Remo Oil Agreement. (see below).

2. In both the Agreements of April 8th 1919 and December 21st 1919 the French Government had promised to grant Messrs. Pearsons and Sons a concession in Algeria as soon as that company had complied with the laws applicable.

changes were that, as noted, provision was made for satisfying French interests should Mesopotamian oil be developed by either private or state enterprise, and that a new clause regarding Persian oil was included. If Mesopotamian oil was to be worked by private interests, the arrangement of December 21st 1919 was to stand. If by state enterprise, the French were to secure 25% of the crude oil produced, at current market rates. The clause concerning Persian oil provided that France was to get, on terms to be agreed, 25% of any Persian oil piped through French territory; this additional clause was conceded by the British Government in return for the French dropping their claim to 50% of Mesopotamian oil.¹

So far, then, British oil policy had woven its rather hesitant way from the decision of December 1918 to uphold the validity of the Turkish Petroleum Company's pre-war claims, through several agreements in which both Shell and French participation in those claims was envisaged, to a situation in January 1920 where the whole policy of the previous year was called into question and a new plan for State working of Mesopotamian oil was mooted. Then, partially clarifying matters, had followed the San Remo Agreement.

Here, however, there was at last something permanent in

1. Memorandum of Agreement at San Remo, April 24th 1920, between M. Philippe Berthelot, Directeur des Affaires Politiques et Commerciales au Ministre des Affaires Etrangeres, and Professor Sir John Cadman KCMG, Director in Charge of His Majesty's Petroleum Department. United States, Department of State, Foreign Relations of the United States (hereinafter abbreviated to F.R.U.S.) 1920, II, pp.655-658.

Britain's oil policy, for the San Remo Oil Agreement was to endure, despite various outside pressures against it, and despite further Anglo-French squabbles over oil and other matters.¹ Nevertheless, if the basis of agreement with the French was settled, even that settlement could not be worked out in detail as long as there was doubt concerning two things - the arrangement for the working of the Mesopotamian oilfields (by private or by state enterprise?), and the final settlement of the mandate for Iraq.

III Pressure from America

The San Remo Conference had decided that Britain should have the mandate for Mesopotamia (which would include Mosul),² but the actual form of the mandate had not yet been decided, and

1. See below (passim).

2. See Nevakivi, op. cit., pp.245-246.

On March 23rd 1920 the British Cabinet had approved the basis of a statement on the subject of the Mesopotamian Mandate, the first two points of which declared that if Great Britain were offered the Mandate she would accept, but that, "The mandated territory must include Mosul, since there is no suitable physical boundary for Mesopotamia in the plains between Mosul and the Persian Gulf; since the inhabitants object to the partition of their country, and since the oil-bearing regions of Mosul are essential to the revenues on which the future development of the whole country will depend."

(Cabinet Minutes, March 23rd 1920, CAB 23/20. 16(20)3.)

final approval would have to be given by the League of Nations. However, the discussions with regard to mandates were not simply the concern of Britain, France and the other members of the League. The United States, though not a League member, also claimed a voice in these discussions, and, with regard to Mesopotamia, that nation was particularly suspicious of British policy there, especially concerning oil.

At this time (mid-1920) the so-called Anglo-American "Oil War" was at its height. Demand for oil products had increased rapidly and was tending to outstrip production increases, and there was thus a great fear in America of an oil shortage. Intensifying this fear was American apprehension of the power of the Royal-Dutch-Shell combine, with its strong British element, and general suspicion of British intentions regarding oil in many parts of the world.¹ On the British side, fears

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1. The sources for an account of the Anglo-American "Oil War" are legion. Apart from the newspapers and periodicals of the time on both sides of the Atlantic (probably the most important source, since the "War" was largely a product of newspaper campaigns - no doubt sponsored by the oil interests!), the following are worth noting:-

British Foreign Office files (numerous)

United States, Senate, Small Business, Select Committee on the International Petroleum Cartel, Staff Report to the Federal Trade Commission (Committee Report, 82nd Congress, 2nd Session) (1952).

F.R.U.S. (various volumes).

United States, National Archives and Records Service:

File 890 g.6363 (Rights of the Turkish Petroleum Company in Mesopotamia) is available on microfilm M 722/24. Also available is file 800.6363, dealing with international oil questions in general.

There are also numerous secondary works dealing with the subject (See Bibliography in Shwadran, op.cit.).

of the intentions and suspected intrigues of the supposedly omnipotent Standard Oil "Combine",¹ combined with a certain anxiety amongst British naval men concerning the apparent plans of the U.S. Navy Board to make the American Navy greatly superior to the British,² increased the tension between the two countries.

The tension over oil was never quite as serious between the two Governments as it appeared to be from the accounts given by newspapers of the time, however. The Anglo-American "Oil War" was, to a great extent, a creation of newspapers on both sides of the Atlantic. Nevertheless, the tension between the British and United States Government that did exist did find expression in various ways, one of them being a diplomatic duel over economic rights in mandated territories, with special reference to Mesopotamia.

On May 12th 1920 the American Ambassador in London delivered an important note to Lord Curzon. The note affirmed the rights of the United States Government to participate both in discussions on mandates and in the consideration of pre-war

1. See in particular:- Memo by Weakley on the Standard Oil Company's Activities, December 1921.
FO 371/371/6345/13886.

2. Memo on Naval Construction by the First Lord of the Admiralty (W.H. Long) July 23rd 1920. CAB 24/109. CP.1677.
Allan Westcott (ed.) American Sea Power since 1775 (Chicago, n.d.) pp.335-337.
S.W. Roskill, Naval Policy between the Wars, Vol. I (London, 1968) pp.24, 71-73, 104, 212-214.

concessions, and stressed that the principle of equality for all nations concerning economic rights (the "Open Door") should apply in mandated territory, and that any monopoly operating on behalf of the Mandatory Government would be definitely inconsistent with such principles.¹ Later, after publication of the San Remo Oil Agreement,² a further American note (of July 28th) alleged that that Agreement infringed both the Mandate and "Open Door" principles in general. These statements, together with specific allegations of British exclusionist policy in Mesopotamia,³

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1. Davis to Curzon, May 12th 1920, in Parliamentary Papers, (H of C) 1921 (Cmd. 1226) xliii, 481 "Correspondence between His Majesty's Government and the United States Ambassador respecting Economic Rights in Mandated Territory".
 2. The Foreign Office had been particularly anxious to publish the San Remo Oil Agreement, in case American oil companies got hold of the text and published it, along with hostile comments, before the British view could be fairly explained to the American public. See Minute by Weakley, July 27th 1920 FO 371/5085/20/8622. Curzon to Geddes (Washington) July 23rd 1920 in D.B.F.P. 1st Series, Vol. XIII, pp. 314-315.
 3. See especially the third and fourth paragraphs of the Note of May 12th 1920.

obviously constituted a direct attack on British plans to secure full control of Mesopotamian oil.

Curzon replied to the American allegations on August 9th, stating that the San Remo Agreement "aimed at no monopoly", but was merely a bargain between Britain and France whereby the latter renounced her interests in Mosul as well as giving certain pipeline facilities in return for a share of Mesopotamian oil. As for the American claim to a voice in the discussion of mandates, Curzon stated that only League Members had such rights, although at the same time he expressed agreement with the general principles which had been put forward by the Americans in their note of May 12th, and he affirmed that all pre-war concessions would get fair and equal treatment.¹

1. Davis to Curzon, July 28th 1920 and Curzon to Davis, August 9th 1920 in Parliamentary Papers (H of C) 1921 (Cmd. 1226) xliii, 481, "Correspondence between H.M.G. and the U.S. Ambassador respecting Economic Rights in Mandated Territory".

The American Government was unconvinced however, and, with justice, declared itself (in a note dated November 20th 1920) unable to reconcile three aspects of the matter which Curzon had stated to be part of British policy - maintenance of the San Remo agreement, the idea of securing Mesopotamian oil for the Arab State, and the declaration that all pre-war concessions would get fair and equal treatment. More specifically, the United States openly challenged the claim of the Turkish Petroleum Company to any rights to develop Mesopotamian oil, and strongly attacked the provision in the San Remo Agreement which declared that any private company developing Mesopotamian oil should be "under permanent British control".

In thus attacking British policy, the Americans had pinpointed one of its basic weaknesses at the time - its confused state. The Foreign Office in particular had found the confusion existing as to whether Mesopotamian oil was to be developed by State enterprise, in

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1. In his Note of August 9th 1920.
 2. The American note referred to a public statement made by the British Minister in charge of Petroleum Affairs that the San Remo Agreement was based on the principle that the concessions granted by the former Turkish Government must be honoured (see The Times, July 27th 1920, p. 16, col. d). The American note stated that the American Government's information indicated that the Turkish Petroleum Company "possessed in Mesopotamia no rights to petroleum concessions or to the exploitation of oil."
 3. Bainbridge Colby to Curzon, November 20th 1920 in F.R.U.S. 1920, II, pp. 669-673.
 4. It could perhaps be contended, however, that the confused state of British policy at this time was a factor strengthening it vis-a-vis other governments - it left the British various options and loopholes.

accordance with the Conference decision of January 23rd 1920, or by private interests, a great handicap in trying to frame its replies to the United States' notes. Did the decision still stand or not? It had not been revoked, but the San Remo Agreement implied that it might be. The growing friction with the United States over mandates clearly demanded that some clarification of Britain's oil policy be made - for unless it was known clearly what that policy was, it was obviously going to be very difficult to defend it.

The decision on state working had been under attack from many Departments in the British Government from the very start. The Admiralty in particular regretted the abandonment of the Shell Agreement¹, while the Petroleum Department of the Board of Trade not only agreed with the Admiralty as to the advisability of implementing the Shell Agreement, but also attacked the principle of state enterprise on the grounds that it meant inefficiency, lack of initiative and, moreover, would entail the provision of large sums of government money for development.² Even the hitherto strongest advocate of state working, A.T. Wilson, changed his attitude, now urging that the

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1. Admiralty Memo for the Cabinet (CP. 903) March 18th 1920 and Memo by First Lord of the Admiralty, June 29th 1920
FO 371/5086/20/14471.
 2. Memoranda by Kellaway, April 22nd, June 21st, November 15th 1920 and Memo by President of the Board of Trade, April 16th 1920
FO 371/5086/20/14471.

Anglo-Persian Oil Company was the best agency for the development of Mesopotamian oil.^{1.} On December 9th 1920 Lord Curzon joined the chorus of official protest in a memo for the Cabinet, asking for re-interpretation or re-consideration of the decision "particularly in view of the attitude of the U.S.A."^{2.}

By the end of 1920 the American diplomatic onslaught was beginning to have its effect on the British Government's thinking on oil policy. His Majesty's Government still had to answer the latest American note (of November 20th) and, while it could not afford openly to transgress against any of the principles which the Americans apparently held so dear, it had also somehow to save itself from the calamity of having to throw Mesopotamia open to all and sundry for development. The only way to achieve these aims seemed to be by again boldly championing the Turkish Petroleum Company's pre-war rights to the oil concession for Mosul and Baghdad; this, of course, would mean the abandonment of the principle of state working. In addition, some concession to American interests would have to be made if Anglo-American relations were not to be further embittered.

The decision of the Conference of Ministers on State working still stood, formally, when on February 28th 1921 Curzon made his reply to the American note of the previous November. Nevertheless, the delivery of that reply made it practically impossible to implement that decision

1. Civil Commissioner at Baghdad to India Office, July 7th 1920
FO 371/5085/20/8077.

It may perhaps be significant that A.T.Wilson later joined the Anglo-Persian Oil Company staff.

2. Memo for the Cabinet by Lord Curzon, December 9th 1920.
FO 371/5086/20/15389.

NOTE: The Oil Companies obviously had an interest in overturning the decision, but no evidence of their views having influenced the attitude of Government officials has been found.

without categorically disowning what was a formal diplomatic communication from His Majesty's Government to the Government of the United States, for Curzon's reply firmly asserted that the Turkish Petroleum Company's claim to the oil concession in Mosul and Baghdad, based on the Grand Vizier's letter, was definitely valid.^{1.}

The British note was by no means hastily considered document, nor had it been conceived and executed only after consultation within the Foreign Office. On the contrary, the note was a much drafted, altered, and re-drafted document in the composition of which all Departments had been consulted and which, furthermore, had been sent only after the Prime Minister's express approval had been given.^{2.} However, since no formal recognition of this fait accompli (if it may be so termed) was given at the time by the Cabinet, the confusion as to the exact position persisted. Nevertheless, from that time onwards, with one exception, discussions on the question of Mesopotamian oil took as a basis the idea that development would be done by the Turkish Petroleum Company, and not by state agency. The one notable exception, a plan mooted early in 1921 by Sir Percy Cox (High Commissioner in Baghdad) whereby the Anglo-Persian Oil Company

1. Curzon to Davis, February 28th 1921 (see paragraph 8 of this communication) in Parliamentary Papers (H of C) 1921 (Cmd 1226) xliii, 481. "Correspondence between H.M.G. and the U.S. Ambassador respecting Economic Rights in Mandated Territory".

2. See various notes, minutes and drafts in FO 371/6363/576/2611.

alone should act as state agency for the development of Mesopotamian oil, was abandoned, partly at least because of fear of the likely American attitude to such a plan.^{1.}

Further American notes of August 24th and November 17th 1921 showed that the American attitude was unlikely to soften.^{2.} The British Government believed that the United States was fully capable of keeping up its present attitude to the Mandates until the oil question had been settled to its liking, and that even if it did not do that, it might try to influence the Arab Government against finally granting the concession to the Turkish Petroleum Company. There seemed only one way out of the dilemma -- to offer the Americans a share in the Turkish Petroleum Company and to set on foot negotiations with the Standard Oil Company towards that end.^{3.}

There were, too, other things to be considered. A Company known as the Central Mining and Investment Corporation (a London-based Company) had taken up certain claims of the heirs of the former Sultan Abdul Hamid II to properties in Mesopotamia and other territories of the former Ottoman Empire.^{4.} These claims were of such a prodigious extent that the High Commissioner had declared that, if granted, they would leave Mesopotamia "a beggared State".^{5.} The

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1. Petroleum Department to Foreign Office, March 3rd 1921 (and enclosed memo). FO 371/6360/382/2869.
Minute by Sperling, March 3rd 1921 and Foreign Office to Allenby (Cairo) March 6th 1921. FO 371/6360/382/2945.
 2. G. Harvey (U.S. Embassy) to Curzon, August 24th 1921, and November 17th 1921. FO 371/7051/1149/9180, and FO 371/6364/576/12708.
 3. Memo by Weakley, December 13th 1921. FO 371/6364/576/12708.
 4. Central Mining and Investment Corporation to Curzon, April 11th 1921 and F.O. Minutes therewith. FO 371/6360/382/4413.
Admiralty to Foreign Office (and enclosed report) April 22nd 1921 FO 371/6360/382/4819.
 5. High Commissioner for Iraq to Secretary of State for the Colonies, November 4th 1921. FO 371/6362/382/12256.

Central Mining and Investment Corporation, in approaches to the Foreign Office, had hinted that it might try for American support. While the Foreign Office felt there was little of substance in the claims of the heirs, it recognized that in the hands of the Americans they could have at least a great deal of nuisance value.¹.

1. Minutes of Inter-Departmental Meeting, June 18th 1921.
FO 371/6361/382/7110.

Then, too, there was the problem of Italy. Following the publication of the San Remo Oil Agreement in mid-1920, the Italians had made several diplomatic approaches to Britain and France on the subject of oil. At first they had echoed the American charges against the allegedly monopolistic character of the Anglo-French agreement, declaring it to be a grave menace to Italy's fuel supplies, and contrary to the principles of the League Covenant.^{1.} Later, this clamour against the iniquitous San Remo Agreement had turned into a plea to share in its benefits, these pleas being supplemented by vague threats of combination with American interests if Italy did not get what she wanted.^{2.} While the Foreign Office was by no means alarmed by the "spectre of an Italy-United States combination in the oil question",^{3.} the Italian demands were nevertheless an added international complication.

Although on the surface it would appear to have been in France's interest to support British plans for the maintenance of the rights of the Turkish Petroleum Company, Anglo-French relations were at times by no means so cordial as to allow the British Government any

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1. Memorandum communicated by the Italian Ambassador, August 20th 1920, in D.B.F.P. 1st Series, Vol. XIII, p. 342.
 2. Note from the Italian Ambassador to Earl Curzon, October 23rd 1920, in D.B.F.P. 1st Series, Vol. XIII, pp. 363-365.
Italian Ambassador to Curzon, March 16th 1921. FO 371/6360/382/3650.
Petroleum Department to Foreign Office, August 3rd 1921.
FO 371/6361/382/8954.
 3. Foreign Office to Petroleum Department, August 17th 1921.
FO 371/6361/382/8954.

complacency on the subject. For one thing the persistent reports of the great influence of the Standard Oil Company amongst French officials were disquieting to the Foreign Office.^{1.}

Accordingly, towards the end of 1921 a definite plan began to emerge whereby some compromise would be sought between the Turkish Petroleum Company and the American interests which would also, it was hoped, provide for satisfying the demands of the Italians and, if their claims were upheld legally, for compensating the Sultan's numerous heirs. This plan was put forward first in a memo of December 13th 1921 by Mr. Weakley, and seven days later the Foreign Office wrote to the Colonial Office for its views on this suggestion.^{2.}

1. See in particular Minute by Tyrrell, November 24th 1921
FO 371/6367/382/13144.

2. Memo by Weakley, December 13th 1921.
Foreign Office to Colonial Office, December 20th 1921.
FO 371/6364/576/12708.

What of the companies already participating in the Turkish
 1. Petroleum Company? Although the Anglo-Persian Oil Company was preparing
 to cooperate fully with the Standard Oil Company (New Jersey) in
 2. Northern Persia, it had always been very reluctant to forego any of
 its prospective privileges in Mesopotamia which compromise with the
 3. Standard Oil would entail. The Royal Dutch-Shell was even determined
 to fight it out with the Americans rather than compromise in
 Mesopotamia - at least, that seemed to be Deterding's attitude, and
 4. for all practical purposes he was the Royal Dutch-Shell.

There was also, of course, another aspect altogether to be considered. If the Americans, and perhaps the Italians, were to be included in the Turkish Petroleum Company as well as the French, then there was no prospect either of the British Government using the promise of a large share in that Company as a bait to gain control of the Royal Dutch-Shell, as earlier schemes had envisaged, or of there being any "permanent British control", as specified in the San Remo

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1. The D'Arcy Exploration Company (subsidiary of the Anglo-Persian Oil Company) asked for British Government concurrence in its formally taking up its 50% share in the Turkish Petroleum Company. The Foreign Office concurred in June 1921.
(D'Arcy Exploration Company to Foreign Office, May 27th 1921.
 FO 371/6360/382/6110.
Foreign Office to D'Arcy Exploration Company, June 17th 1921.
 FO 371/6361/382/6393.
 2. See Chapter 5 (below).
 3. See Petroleum Department to Foreign Office, June 21st 1921.
 FO 371/6414/76/7134.
 4. In urging (to the Foreign Office) that British interests cooperate rather than fight the Americans, Gulbenkian had particularly asked that his views be kept confidential, because, he said, he and Deterding differed on the question.
(Minute by Tyrrell, November 24th 1921. FO 371/6367/382/13144.)

Oil Agreement. British plans to gain control of the Royal Dutch-Shell Company were, however, now being developed along different lines,^{1.} and Mesopotamian oil was no longer the crux of the whole matter. As for the idea of "permanent British control", this was already impossible of realization in the form originally envisaged.

At the beginning of 1922 the Conference of Ministers' decision of January 23rd 1920 still stood, unrevoked, as a statement of British oil policy, although probably no-one now seriously believed that it would be implemented. By July, however, the pressure of events had forced its final, formal repudiation.

In January 1922 the Colonial Office (which since October 1921 had taken over responsibility for Mesopotamian affairs) approved Weakley's suggestion that American and Italian interests should participate in the Turkish Petroleum Company.^{2.} Further progress was made also at an informal conference at the Colonial Office on January 16th at which Anglo-Persian Company representatives (and possibly also Shell representatives)^{3.} agreed verbally to the principle of American participation in the Turkish Petroleum Company. (The question of Italian participation was shelved for the time being).^{4.} Already, however,

1. See Chapter 4. (below).

2. Colonial Office to Foreign Office, January 3rd 1922.
FO 371/7782/132/132.

3. It is not certain from the documents whether Shell representatives actually were present, but nothing in them contradicts this view, and it is very probable that they were.

4. Petroleum Department to Foreign Office, January 21st 1922.
FO 371/7782/132/782.

Cadman (now a member of the Anglo-Persian Oil Company)¹ had intimated to Standard Oil (New Jersey) representatives that his Company was willing to discuss cooperation with them in the Turkish Petroleum Company.² Here, it seemed, the fact that the Anglo-Persian and Standard Oil Companies were already cooperating in Northern Persia was an important factor in getting the two groups together on the Mesopotamian question.

The British Government, whose interest in the affair of the Turkish Petroleum Company had gradually become a question as much of political concern³ as of concern for oil per se, having steered things to this stage, was now anxious that any negotiations between the groups should take place on the commercial level only and that, as far as possible, the respective governments should not interfere. This, it was felt, would lessen the danger of further political complications.

By mid-June 1922 informal inter - Company negotiations on American participation in the Turkish Petroleum Company had begun to bear fruit. Bedford, of the Standard Oil Company, had

1. Cadman had joined the Company in 1921.

2. Petroleum Department to Foreign Office, January 3rd 1922.
FO 371/7782/132/156.

3. Churchill (Secretary of State for the Colonies) urged Anglo-American cooperation in Mesopotamia and Northern Persia over oil concessions as a means of relaxing the tension over Mandates and the Kemalist situation, and of conciliating the United States in the Middle East. (Churchill to Curzon, February 1st 1922. FO 371/7782/132/1195).

contacted the American companies and determined which were interested in participation in the Turkish Petroleum Company (there were seven such companies in all). He was doubtful, however, about the adequacy of the 20% share which had earlier been tentatively suggested by the Anglo-Persian Oil Company as the basis of American participation.^{1.}

The State Department also, it appeared, had consented to the Americans entering into formal negotiations with the Turkish Petroleum Company, on condition, though, that the "Open Door" policy be maintained and that the State Department approve any agreement arrived at. This did not imply any fundamental change in the State Department's attitude, however, since that body made it amply clear that it still regarded the Turkish Petroleum Company's claim as invalid, though it seemed probable that it would accept the fait accompli if the Mesopotamian Government eventually ratified the concession.^{2.}

There remained yet the attitude of the French to clarify. On July 11th 1922 the Foreign Office wrote to Hardinge, British Ambassador in Paris, requesting that he ask the French Government to appoint its nominees to take up the 25% Turkish Petroleum

1. Cable from A.C. Bedford (New York) to Greenway (A.P.O.C., London) June 27th 1922.
FO 371/7784/132/6410.

2. Ibid.

Company shares so that the Company might be fully constituted and a French representative be present at the negotiations with the Americans.^{1.} The French, however, were in no hurry to do this, and, indeed, as will be seen later, they had certain reservations about the proposed rearrangement of the Turkish Petroleum Company.

Nevertheless, at this stage it seemed possible for more formal negotiations for American entry into the Turkish Petroleum Company to go forward. Moreover, from the British point of view, certain elements of confusion in its oil policy had apparently been eliminated for, in the Foreign Office's communication to Hardinge just referred to, the following passage occurred:

Exploitation of the Mesopotamian oilfields by private enterprise has been considered the best means for developing the oil resources of the country. 2.

Here then, at last, was the final rejection of the idea of state working for Mesopotamian oil. There does not appear to have been any discussion in the Cabinet of the matter, and the whole question of the formal reversal of the January 1920 decision seems to have been decided by informal (and apparently unrecorded) discussions within the Departments.^{3.}

1. Foreign Office to Hardinge (Paris) July 11th 1922.
FO 371/7784/132/6735.

2. Ibid.

3. An inter-departmental meeting to discuss the matter of the French taking up their shares in the T.P.C. had been held on July 5th 1922. The question of the reversal of the Cabinet decision of January 1920 must have been mentioned at the time, and also presumably came up in whatever informal discussions took place afterwards - but there is apparently no extant record of any concrete decision having been taken on this point. Minute by Weakley, July 3th 1922. FO 371/7784/132/6691.

The British Government now had a more definite policy for oil. The first tenet of that policy - support of the Anglo-Persian Oil Company in Persia (and elsewhere) had of course never been in doubt. Now, after over three years, the search for a policy for Mesopotamian oil had ended - inevitably in the prevailing circumstances - in a final decision to give the Turkish Petroleum Company the full support of His Majesty's Government.

The British Government thus had a second potentially powerful oil company under its wing, but, unlike the Anglo-Persian Oil Company, the Turkish Petroleum Company was no longer to be a wholly British concern. Britain had deemed it expedient to allow the French a share in it, but she had initially resisted American pressure. This pressure (thinly disguised as insistence on the "Open Door") had, however, gradually made an impression, helping to force British oil policy out of its initial rather confused and indecisive state into a more definite form. Thus the British were obliged to surrender to American concerns a substantial interest in their protégé, the Turkish Petroleum Company, as the price of political peace.

IV The Turkish Petroleum Company Reorganized

The first of the meetings between Standard Oil (N.J.) and Turkish Petroleum Company representatives specifically called to negotiate the American entry into the latter company took place in mid-July 1922.¹ An outline agreement on a formula to satisfy the United States Government's insistence on the "Open Door" was soon arrived at (selection of certain blocks, the rest being auctioned)² and certain other points

1. Petroleum Department to Foreign Office, July 22nd 1922.
FO 371/7784/132/6735.

2. The Turkish Petroleum Company was to select, not later than two years after the confirmation of the concession, not more than 12 blocks, each not exceeding 16 square miles. The rest of the concession area was to be sub-leased by auction, at which the Turkish Petroleum Company was not to bid.

1.
were settled quickly, but on the major question of the amount of share participation to be allotted to the American Group no agreement was reached.

At the July meetings Teagle (of the Standard Oil (N.J.) Company) had asked for 25% for the American Group, but it soon had become apparent that he was prepared to accept 20% instead.^{2.} The distribution would then have been: Anglo-Persian Oil Company 40%, Anglo-Saxon Petroleum Company 20%, French Group 20%, American Group 20%.^{3.} Deterding, however, was prepared only to agree to offer the American Group a "half-interest", or approximately 12%, which figure the Americans had no intention of accepting.^{4.} Moreover, Deterding was inclined to adopt a "take it or leave it" attitude, ignoring Colonial Office pleas for compromise and warnings to him that American consent to the Mandate was needed before it could be operative,^{5.} and, furthermore,

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1. Mainly concerning general principles, and including agreement to go ahead and fix the royalties payable to Iraq as soon as possible.
 2. Note of the Proceedings of the inter-Company meetings (enclosed in Petroleum Department to Foreign Office, December 22nd 1922 (q.v.)).
FO 371/7785/132/14289.
 3. This distribution was, of course, subject to some modification in view of Gulbenkian's claim to a 5% share, and in view of possible Iraqi participation.
 4. Petroleum Department to Foreign Office, December 22nd 1922.
FO 371/7785/132/14289.
 5. Since the United States was not a League Member, American consent was not formally necessary - but her continued opposition would obviously have made the position difficult for Britain.

that unless agreement was reached soon the Iraq Government might decide to put the concession up to the highest bidder.¹

Deterding maintained his uncompromising stand for some time, but on September 9th he suggested, as an alternative, that the Americans be given 25% out of the Anglo-Persian Company's share, in return for which that company should have a royalty.

Considerable discussion then ensued between Shell and Anglo-Persian representatives, with the British Government also involving itself by exerting pressure on Deterding to alter his attitude. Eventually, however, in December, the Anglo-Persian Company accepted Deterding's proposal of September 9th.²

The arrangement thus proposed divided the Turkish Petroleum Company shares equally among the French group, the American group, and the Anglo-Saxon and Anglo-Persian Companies, though with provision for Gulbenkian to retain 4% of the shares. Each group would therefore have a 24% participation. To compensate the Anglo-Persian Company, whose share thus fell from 47½% to 24%,

1. Memo by R.V. Vernon (Colonial Office) of Conversation with Captain W. Samuel (Shell) August 3rd 1922.

FO 371/7784/132/7739.

2. S. Baldwin to H. Deterding, September 15th 1922.

H. Deterding to S. Baldwin, September 21st 1922.

FO 371/7784/132/10170.

Minute by Weakley, December 4th 1922.

Minutes of a Meeting (of Government and Anglo-Saxon Company representatives) December 7th 1922.

H.E. Nichols (Managing Director, T.P.C.) to Petroleum Dept., Dec. 13th 1922.

FO 371/7785/132/13523, 14007 and 14034.

that company was to get 10% of the crude oil, free of charge.^{1.} American pressure, and Deterding's stubbornness, had now, it seems, finally demolished any chance of there being any practical "permanent British control".

The proposed arrangement was cabled to the American Group, which was asked to accept it and, additionally, to secure a promise from the State Department that it would not henceforth question the validity of the Turkish Petroleum Company's concession.^{2.} On January 4th 1923, Teagle (President of the Standard Oil Company (New Jersey) informed the Turkish Petroleum Company that the provision for giving the Anglo-Persian Oil Company a 10% royalty was unacceptable to the American Group, although it was recognized that some compensation to the British Company for the reduction in its shares should be made.^{3.} At the same time the British were informed that the State Department refused to make any firm promise regarding its attitude to the validity of the Turkish Petroleum Company's claim. This seemed to indicate that any American involvement with, for example, the Sultan's

1. Nichols to Petroleum Dept., December 13th 1922.
FO 361/7785/132/14034.

2. Ibid.

3. Teagle to Turkish Petroleum Company, January 4th 1923.
FO 371/8994/91/258.
At this point the Americans would have preferred the straight 20% participation with no royalty provision.

heirs, could still be troublesome -- though it was not expected that this would be a serious problem if final agreement on American participation could be reached.

Further discussions continued. An agreement between the Turkish Petroleum Company and the American group was eventually reached in June, and, according to the Turkish Petroleum Company, it was "a firm one".¹ This agreement must have included at least a provisional acceptance by the American Group of the proposal to give a 10% royalty to the Anglo-Persian Oil Company, a proviso that was eventually (in 1928) included in the Groups' Red Line Agreement.² The basis of American participation was thus settled in principle, although this did not, as will be seen later,

1. Petroleum Department to Foreign Office, June 13th 1923.
FO 371/8995/91/6157.

Nichols (Managing Director, Turkish Petroleum Company) told Vernon (Colonial Office) that the agreement was "a firm one".
(R.V. Vernon to Clarke, June 26th 1923. FO 371/8995/91/6913.

2. It is not absolutely clear just how definite the Americans' acceptance of the 10% royalty provision was at this juncture. However, in October 1923 Teagle told the U.S. Secretary of State that, although there was as yet no definite signed contract regarding American participation in the T.P.C., "practically all of the important terms of such contract have been discussed and agreed to so far as the British partners in the Turkish Petroleum Company Limited are concerned." (Teagle to Secretary of State, October 11th 1923, in U.S. National Archives and Records Service, Microfilm M 722/24 No. 0597-0598).

NOTE: Shwadran (op. cit. p.233) maintains that there was still, in October 1923, dispute between the Americans and British on the 10% royalty provision. He appears to be under some misconception regarding the relevance of the evidence he quotes in support of this view, however (See F.R.U.S., 1923, II, pp.247-257, which Shwadran quotes).

For the Red Line Agreement see below, Chapter 9.

solve all the problems involved, particularly those concerning Gulbenkian.^{1.}

There still remained, however, the question of French consent. Early in March the French Government revived a point which they had made some time before in correspondence with the Foreign Office. They requested that the Iraqi participation in the Company provided for by Article 8 of the San Remo Agreement be without voting rights.^{2.} The British, however, were not prepared to countenance the idea. Nevertheless, in order to compromise, they tentatively agreed to consent to any Iraqi shares being taken pro rata from all the groups, instead of, as laid down at San Remo, France providing half of the first 10% of such shares.^{3.}

1. Early in 1923 the Americans queried Gulbenkian's position in the Company, and the suggestion that Gulbenkian commute his share for a cash payment was being mooted as a solution to the problem.
(Piesse to Nichols, January 3rd 1923 and Nichols to Piesse, January 4th 1923. FO 371/8994/91/258.
Minute by Weakley, March 14th 1923. FO 371/8995/91/2752.)
2. (For the original request, see French Ambassador to the Earl of Balfour, July 31st 1922. FO 371/7784/132/7553).
The French apparently feared that the Iraqi vote would always be cast in the British Group's favour - a doubtful supposition, it would seem. They were also motivated by the need to gain the approval of the French Parliament for what might appear to be French sacrifices to placate American interests. (See Note by Clarke, May 10th 1923 and Minute by Weakley, May 14th 1923. FO 371/8995/91/4920).
3. Osborne to Clarke, June 18th 1923 and Clarke to Osborne, June 22nd 1923. FO 371/8995/91/6157.

On June 30th, following the conclusion of the companies' agreement on American participation, the French were urged to consent to its terms and formally to take up their shares by forming a commercial company to participate in the Turkish Petroleum Company.^{1.} The French, however, were in no hurry to comply, though they did not, to the French Office's relief, create further difficulties in this matter. It was thus not until the following January that the French Government authorised the "Groupe national français des Petroles" to take up the Turkish Petroleum Company shares, and not until July 1924 that they were actually taken up.^{2.}

By mid-1923 what was to be the Turkish Petroleum Company's final composition could be discerned, although many details of its operation were still undefined and were liable to arouse bitter controversy. The American group and the French group had each won its right to partnership on an equal footing with the

1. Foreign Office to Marquess of Crewe (Paris), June 30th 1923.
FO 371/8995/91/6157.

2. Various reasons contributed to the long delay, including confusion as to which French company was to take the shares up, Turkish Petroleum Company requests to the French for certain assurances, and the question of whether or not the French ought to pay interest additional to the price of their shares. See various letters, notes and minutes under the following references:-
FO 371/9386/5522/8813; FO 371/8996/91/10969. 11294;
FO 371/10082/13/1050; FO 371/10084/13/4304, 4855, 5199, 5422.
In March 1924 the "Compagnie Française des Petroles" was formed to take over the interests of the "Groupe national français des Petroles", and it was this group that actually took up the shares in July 1924. (FO 371/10084/13/4236 and 6193.)

Anglo-Persian and Shell groups (though, of course, the Anglo-Persian Oil Company had the advantage of an oil royalty), while the Gulbenkian interest was still represented in the Company. Also, although the Italiana, the Sultan's heirs (and also another group known as the Chester group)¹, each in their different ways still posed problems to both the Turkish Petroleum Company and to the British Government, their prospects of having some share in Mesopotamian oil development at this stage were not very bright.

So far the Turkish Petroleum Company had survived as an entity only because it had been in the British Government's interest that it should so survive. As has been pointed out, the claims of the Turkish Petroleum Company to an oil concession in Mesopotamia were rather dubious, and were supported by the British Government more on the grounds of expediency than on any consideration of actual legality. At one point, the British had even considered abandoning these claims in favour of a scheme for State working. In the end, however, other considerations, particularly the need to compromise with the Americans, had forced a reappraisal of this policy, and the British Government finally came to the conclusion that only by actively supporting the Turkish Petroleum Company could it ensure both that British interests in Mesopotamian oil were safeguarded and that relations with the

1. The "Chester group" had various pre-war claims in the former Turkish Empire. See below, Chapter 6.

Americans over this oil remained capable of improvement. Without this active support the Turkish Petroleum Company would have existed as a mere cypher, a nuisance but certainly not a major stumbling block to whatever schemes were mooted for the development of Mesopotamian oil.

In the immediate future, too, the Turkish Petroleum Company's dependence on British Government support was to be no less marked, for it had many problems still to face, the most important of which was the confirmation of its claim to a concession in the Mosul and Baghdad vilayets.

CHAPTER 4

THE ANGLO-PERSIAN OIL COMPANY AND THE COMPANIES' AMALGAMATION SCHEMES1919 - 1924

In Persia the full development of the Anglo-Persian Oil Company's concession had been somewhat hampered by wartime conditions, although some progress had nevertheless been made during the war years. With the coming of peace, however, the Company could give more attention to the development of its resources.¹ During the period 1919-1924 production from the Company's oilfield at Maidan-i-Naftun (Masjid-i-Suleiman) grew steadily, climbing from just over one million metric tons in 1919 to 4,246,000 metric tons in 1924. Moreover, the oil was of good quality and, compared with that derived from American fields, was cheap to produce.²

The Company was intent on expanding its interests outside Persia also during these years. While developing its refining capacity in Britain, and setting up a refinery in Australia, the Company also acquired interests in several countries outside the British Empire, with the aim of establishing distributing facilities there and, in some cases, of developing oil production. These countries included France, Belgium, Denmark, Norway, Albania, Egypt, Argentina and others.

1. See S.H. Longrigg, Oil in the Middle East (London, 1961) p.36.

2. Ibid., p. 48.

Dunstan, Science of Petroleum, Vol. I, pp. 22-23.

In addition, the Company developed its tanker fleet, and embarked on a programme designed to establish its own bunkering facilities in all the principal ports of the world.^{1.}

Relations between the Anglo-Persian Oil Company and the British Government were close during these years, largely because the interests of each were similar. It should be noted, however, that despite the fact that the British Government owned a majority of the Company's shares, this did not mean that that Government exercised any control over the general day-to-day policy of the Company. The 1914 Government-Company Agreement gave the British Government the right to appoint two directors to the Company Board, but the liaison between the two Government Departments directly involved (the Treasury and the Admiralty) and the Government's appointed directors was of a somewhat casual and informal nature. Unless anything brought up at the Board Meetings was felt directly to concern the Government, its appointed directors did not make any formal report to it on the matter. Thus over a broad area of policy the Company remained unfettered by any Government interference, direct or indirect.^{2.}

1. Reports of the Annual General Meetings of the Anglo-Persian Oil Company, December 20th 1920 and December 21st 1921, in The Economist, December 25th 1920, Vol. 91, pp.1136-1140: December 24th 1921, Vol. 93, pp.1121-1123.

2. See: Treasury, Memo by M. Trickett, January 28th 1928.
T. 161/284. file 33045/1.

Nevertheless, on several very important matters the Company's policy was sometimes affected by the fact that the Government was involved - generally to the annoyance of the Company as a whole. In 1920, for example, when the Company wished to allot shares to the Persian Government (in order to promote a settlement of outstanding questions)^{1.} the Treasury refused to countenance the idea. This restriction on the Company's actions then led Greenway (Anglo-Persian Oil Company Chairman) to seek some modification of the Government-^{2.} Company relationship - but without any success. Again, in 1921, the Treasury refused to find capital for certain of the Company's proposed development plans. At this, one member of the Board wrote:

I am tempted to wonder very much what real advantages we get from having the Government as shareholders in the A.P.O.C. against the serious disadvantages there undoubtedly are, especially in regard to finance....^{3.}

Dislike of the Government's involvement in the Company was not confined to one side, however, for at least one Treasury official felt that the Government's association with the Company was "both^{4.} politically and financially ... embarrassing."

1. See next chapter below.

2. See especially: Anglo-Persian Oil Company to Treasury, August 5th 1920 and Barstow to Greenway, August 12th 1920. T.161/2. file S.120.

3. Extract from a letter from J.T. Cargill, quoted in Greenway to Inchcape, July 12th 1921. T. 161/140. file S.12245.

4. Unsigned, undated memo (evidently by a Treasury official, to the Chancellor of the Exchequer, early in 1922). T. 161/142. file S.12612/01.

One instance in which the British Government made its influence felt directly was over the appointment of Sir John Cadman (then the Company's Technical Adviser) to the Company Board as Managing Director. First put forward in 1922 by Baldwin (President of the Board of Trade), the suggestion aroused strong opposition from the directors against Government interference in the affairs of the Company, although in the end the Government got its way.^{1.} In 1925 the British Government also secured, despite some opposition on the Board, the appointment of Cadman to succeed Greenway as Chairman of the Company (on the latter's retirement).^{2.}

Relations between the Company and the Admiralty during these years were not always cordial, disputes occurring over, inter alia, the method of calculating the rebate due to the Admiralty under the fuel oil contract concluded in 1914.^{3.} A conference held in February 1921 failed to settle the various points at issue, and the matter dragged on until, in March 1928, full agreement was eventually reached on a plan to abandon the rebates scheme, the Company agreeing to supply the Admiralty its fuel oil at the fixed price of twenty-two shillings per ton (f.o.b.).^{4.}

1. Department of Trade and Industry, Baldwin to Greenway, September 7th 1922, and Greenway to Baldwin, September 27th 1922 and November 8th 1922 POWER 33/96.

2. Treasury, H.M. Treasury to Bradbury, August 11th 1925. Letter circulated to A.P.O.C. Board by Greenway, September 29th 1925. Bradbury to Chancellor of the Exchequer, October 3rd 1925. T. 160/25. file 866.

See

3. Introduction, (above).

4. The Admiralty files relating to this question are:-
ADM 116/2318.B (this deals with the period 1917-1924)
ADM 116/2318.C (period 1914-1928).

Thus far it has been seen that friction occurred between the Government and the Company over diverse matters, including interference of the Government in the structure of the Company Board, the Government's restrictions on expansion programmes and on proposals put forward by the Company for the settlement of points at issue with the Persian Government, as well as over rebates due to the Admiralty under its 1914 oil contract. This friction was never sufficiently strong, however, to lead to any firm demand by either side that the Government's shareholding in the Company be eliminated, though the question of the sale of the Government's shares did come up for discussion on several occasions, largely as a result of manoeuvres by the Royal Dutch-Shell interests.

In January 1920 the agreement which the Petroleum Imperial Policy Committee had negotiated with Deterding, whereby British interests gained control of most of the Royal Dutch-Shell organization, in return for that Company getting certain benefits in Mesopotamia, had been "knocked on the head", and it was never revived in that form.¹ Instead, a new scheme, which in some ways was more far-reaching than the earlier one, was put forward by the oil companies and was given careful consideration by His Majesty's Government.

1. See Chapter 3 (above).

(Nevertheless, even after the decision of January 1920 on state working, discussions on certain details of the scheme originally approved by the War Cabinet in May 1919 were evidently continuing in the Treasury. See Treasury file T. 172/1387.)

The scheme, prepared by Mr. R.I. Watson, Managing Director of the Burmah Oil Company, under the date of July 29th 1921, was first considered by the Petroleum Department, and then, in October 1921, it came up for examination by all the British Government Departments.

The Oil Company Memorandum on the Proposed Combination of the Royal Dutch-Shell, Burmah, and Anglo-Persian Oil Companies stated that amongst the outstanding objects of the scheme were the following:

Firstly, financial and commercial control by a British shareholding majority over the oil production of the Royal Dutch-Shell group would be secured by the scheme. Secondly, the scheme would give greater security of the British Government's liquid fuel contracts with the Anglo-Persian Oil Company "which today is dependent on Crude Oil produced from the Persian Oil Fields alone but which under such a combine would have the Security of the Oil Fields all over the World which the Combine would control". Thirdly, the scheme would result in the formation of a strong British unit, able to compete throughout the world with the Standard Oil Company. Fourthly, as a result of the amalgamation, capital expenditure and running costs of the companies involved would be greatly reduced. Finally (since under the scheme the Government would probably sell its shares):

The Government, while not only securing but actually strengthening the objects they had in view when they made their investment in the A.P.O.C. Ltd. would rid themselves from the diplomatic and other complications...which have arisen and will continue as a consequence of their direct financial interest in and, a fortiori, natural sympathy with a particular oil group viz:- the A.P.O.C. 1.

The plan put forward was to combine the assets of the three companies involved and thereby to secure a small British majority of the combination. Thus the Burmah Oil Company's assets were calculated to represent 10.68% of the total combined capital, the Anglo-Persian Oil Company 6.25%, and the Shell Transport and Trading Company 33.24%.

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1. Memo on the Proposed Combination of the Royal Dutch-Shell, Burmah, and Anglo-Persian Oil Companies, July 29th 1921, by the Managing Director, Burmah Oil Company. FO 371/7027/11099/11099.

This made a total British percentage of 50.17%, to the Dutch (Royal Dutch Company) 49.83%. Although the British majority was small, British interests were to have full control of operations, excepting only those on Dutch territory, and, the Memorandum claimed, this scheme was different from previous plans in that there was now to be "an actual financial preponderating British share majority" instead^{1.} of, as in former plans, a mere "paper control".

The first reactions of the Government Departments to the scheme were generally to cast doubts on its merits, from various points of view, although only the Admiralty came out strongly against it, stating that, if the scheme were to be adopted, various safeguards would be^{2.} required. Some discussion took place in October and November 1921, but it was not until January 1922 that any serious attempt to formulate a policy was made.

In a memorandum dated January 6th 1922, Sir Philip Lloyd Graeme (Director of the Department of Overseas Trade) set out the whole companies' amalgamation question in its various aspects, pointing to the advantages to be gained by adoption of the proposed scheme. Firstly, amalgamation of the three companies would result in an efficient, British-controlled unit being set up, from whose efficiency the British consumer would eventually benefit. Secondly, if the

1. Ibid.

2. The Admiralty's views at this stage were the same as those given in some detail later (for which see below). Notes of a Meeting... October 26th 1921. FO 371/7027/11099/11691.

Treasury sold its shares in the Anglo-Persian Oil Company (as was then envisaged if the scheme were adopted) it would thus be freed from the necessity of making large outlays of capital towards the Anglo-Persian Oil Company's expansion schemes. Thirdly, both the Anglo-Persian and Burmah Oil Companies would secure a broader base for their operations than they then had. With regard to Admiralty objections to the scheme, these could be met by the conclusion of various agreements with the oil companies, Lloyd Graeme felt. There was a danger of angry reactions in the United States to the formation of the Combine, Lloyd Graeme admitted, but, he felt, these reactions would be shortlived, and would not cause any serious difficulties in Anglo-American relations.^{1.}

On February 24th 1922 it was decided to appoint a committee to examine the amalgamation question,^{2.} and this then led various departments to elaborate their views.

The Foreign Office felt that if the proposed Combine were formed, the Government definitely ought not to retain its shares in the Anglo-Persian Oil Company, because this would lead to diplomatic difficulties, especially with the United States, resulting in damage to the prospects of Anglo-American cooperation in Iraq and North Persia. It might also lead to British responsibility for defending

1. Memo by P. Lloyd Graeme, January 6th 1922. FO 371/8288/873/873.

2. Cabinet Office to Vansittart (F.O.), February 24th 1922.
FO 371/8288/873/1835.

interests which were principally Dutch. On the other hand, with regard to Persia, the Foreign Office was loath to part with control of the Anglo-Persian Oil Company, which was felt to be "a big political asset in the country".^{1.}

The India Office, which had asked the Government of India for its views, was not in favour of amalgamation, although it would not, it stated, raise objections if it was considered to be in the national interest to sanction the project. The Government of India demanded, however, that in that event Indian interests should be adequately safeguarded.^{2.}

In a memo dated March 11th 1922 the Admiralty attacked the whole amalgamation scheme. The Admiralty objections were, firstly, that the proposed Combine would have a monopoly in the East; secondly, the inclusion of the Royal Dutch-Shell Group's interests in Mexico, California, Trinidad, Venezuela etc. would not greatly improve the Admiralty's supply situation (as the supporters of amalgamation had argued) since fuel oil to meet the Admiralty's specification was difficult to produce from these sources; thirdly, the Combine might be able to manipulate the Anglo-Persian Oil Company's profits to reduce the Admiralty's rebate on price which was laid down in the fuel oil contract; fourthly, the abandonment of the Government's shares would render this contract less secure; fifthly, the Admiralty stated

1. Minute by Weakley, March 9th 1922. FO 371/8288/873/2119.

2. Particularly as concerned the Indian consumer, and the development of the Burma oilfields. (Enclosures in Cabinet Office to Foreign Office, March 9th 1922. FO 371/8288/873/2151).

that there was no evidence that the Anglo-Persian Oil Company Board
^{1.}
 really wanted the scheme.

The first meeting of the Cabinet Committee on Oil Companies' Amalgamation took place on March 10th 1922, when various points
^{2.}
 mentioned above were made in the discussion. At the second meeting of the Committee, three days later, A.J. Balfour, who had just returned from the Washington Naval Conference, dwelt on the danger to Anglo-American relations if the project went through:

If the British Government held shares in a great rival company the Americans would undoubtedly regard it as an international affair at once. In the alternative case (i.e. the Government's shares sold, but the amalgamation project approved) judicious mis-representation would undoubtedly have the same effect... ^{3.}

The views of Sir Charles Greenway were sought at the third and fourth meetings. It then became clear that, notwithstanding a statement made by him that the amalgamation scheme was a good one commercially, Greenway was by no means in favour of its implementation. Instead of praising the scheme, he dwelt on the rosy prospects of the Anglo-Persian Oil Company as an independent concern, and he cast

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1. Statement of Admiralty views (March 11th 1922). FO 371/8288/873/2177.
 "There is little doubt that the 'Shell' Company are at the back of the present scheme." (Minute by Jenkins, Director of Contracts, Admiralty, October 21st 1921. ADM 116/3452. Sheet 77).
 2. Committee on Oil Companies Amalgamation: Minutes of First Meeting, March 10th 1922. FO 371/8288/873/2587.
 Baldwin (President of the Board of Trade) was Chairman, and representatives of the Treasury, Admiralty, Board of Trade, Foreign Office, Colonial Office and India Office usually were present at the meetings.
 3. Committee on Oil Companies' Amalgamation: Minutes of Second Meeting, March 13th 1922. FO 371/8288/873/2588.

doubt on the reality of the "British control" which would be achieved^{1.} if his company entered the proposed Combine. Whatever misgivings Greenway might have had about the British Government's involvement in his Company, it was obvious that he preferred to see this involvement continue rather than that the Company should be swallowed up in a^{2.} larger combine such as would result from the amalgamation scheme.

The views of Watson (Burmah Oil Company) and Deterding were also sought by the Committee, as were the views of the Government Directors on the Anglo-Persian Company Board. While Watson and Deterding emphasised the benefits of the amalgamation scheme, the Government Directors did not favour its adoption, Lord Inchcape in particular declaring that "if a combination was formed the consumer was bound^{3.} to go to the wall".

The Committee's Report, dated June 12th 1922, reviewed most of the points noted above. Particular stress was placed on the doubts existing with regard to the possibility of securing effective and permanent control of the proposed Combine. "In the last resort", stated the Report, "effective control over oil companies in time of war can only be obtained by control over production in the producing territory", and this applied everywhere. Also, while special voting rights could be given to British Government nominees to secure British

1. Committee on Oil Companies' Amalgamation: Minutes of Third and Fourth Meetings, March 16th and 17th 1922.

FO 371/8288/873/2697 and 2698.

2. At his meetings with the Committee, Greenway did not express any particular dislike of the Government holding a share in the A.P.O.C.

3. Committee on Oil Companies' Amalgamation: Minutes of Fifth, Sixth, and Seventh Meetings, March 21st, 28th, and 30th, 1922.

FO 371/8288/873/2789, 3029, and 3180.

interests, nevertheless, "the real management of the amalgamation (would) inevitably pass to the man of outstanding ability and keenest^{1.} brain, whatever his nationality". Although the Report did not say so, undoubtedly the Committee felt that to combine the Anglo-Persian and the Burmah Oil Companies with the Royal Dutch-Shell Group was, in effect, to hand over those two British companies to Deterding.

The Committee's Report accepted the Admiralty's thesis that the amalgamation would weaken the satisfactory arrangement for fuel oil supplies with the Anglo-Persian Oil Company. Apart from Persia, the only areas the Combine would control which were suitable for producing fuel oil to the Admiralty's specification were Borneo and Sarawak; this was by no means sufficient to outweigh the increased possibility of artificial restriction of supply which would come about if the Combine were to be set up. In effect, approval of the amalgamation scheme would be a reversal of the policy of 1914, when the independence of the Anglo-Persian Oil Company had been deemed so vital an interest that the British Government had stepped in to^{2.} prevent the Company's absorption by Shell.

Consideration of the issues from the point of view of India was also given space in the Report, and it was particularly noted that, because of the great difference in the cost of production between Burma oil and that from Persia (Burma oil cost £2 per ton, Persian

1. Committee on Oil Companies' Amalgamation: Final Report, June 12th 1922, pp. 4-5. CAB 24/137. CP.4050.

2. Ibid., p. 6.

only five shillings), there would be a great danger, under the
 amalgamation scheme, of Burma oil development being severely restricted.^{1.}

Reference to the difficulties which would arise in Anglo-American relations if the amalgamation project were accepted (with or without Government participation) was made, the Report stating that Balfour's evidence on this point was conclusive.^{2.}

Then, turning away from the question of the companies' amalgamation as such, the Report briefly referred to the particular issue of the Government's shareholding in the Anglo-Persian Oil Company. The Committee saw no reason why His Majesty's Government should sell its shares just then; if the question arose later, "serious consideration should be given as to the safeguards required to assure the position of the Admiralty".^{3.}

The Report finally made two recommendations:-

- (a) That His Majesty's Government should refuse permission to the Anglo-Persian Oil Company to enter the proposed amalgamation.
- (b) That His Majesty's Government should retain the existing Government shareholding in the Anglo-Persian Oil Company for the present. 4.

1. Ibid., p. 7.

2. Ibid., p. 7.

3. Ibid., p. 8.

4. Ibid., p. 8.

Notwithstanding the fact that so much serious discussion of the various issues had taken place, there can hardly have been much real doubt about this verdict from the outset. There had never been any enthusiastic advocates of the amalgamation scheme in Government circles, while on the other hand there had been at least one inveterate opponent of the scheme, the Admiralty, right from the start. As the discussions had continued, even the lukewarm supporters of the scheme, such as Sir Philip Lloyd Graeme, began to see that the advantages were definitely outweighed by the disadvantages, as far as Government interests were concerned. Among the oil companies, the Royal Dutch-Shell Group was enthusiastic - and indeed was probably the initiator of the scheme, notwithstanding the fact that the outline scheme was drawn up by Watson of the Burmah Oil Company. The Burmah Oil Company was warmly for amalgamation also, in order to broaden its base of operations, but, as has been seen, the Anglo-Persian Oil Company was by no means keen on the idea. The decisive issue in the question was that of naval supply, and it was on this issue, primarily, that the scheme foundered, although other considerations, such as the expected adverse effect on Anglo-American relations, also contributed to the scheme's rejection.

The rejection of the amalgamation scheme, in mid-1922, however, was not the end of the matter, and the Shell Group particularly had by no means abandoned hope of securing its

eventual implementation.¹ It was not until mid-October 1923, however, that the issue again came to life (almost certainly as a result of Shell influence) with the circulation to Government Departments of a letter on the subject by Neville Chamberlain, Chancellor of the Exchequer.²

Immediate reaction in the Departments to Chamberlain's raising the issue again was almost entirely unfavourable,³

1. Minute by Weakley, March 2nd 1923. FO 371/9405/151/2205.

2. The scheme proposed by Chamberlain was similar to the 1921-22 amalgamation scheme. Chamberlain was apparently concerned about allegations that the A.P.O.C. was inefficient and had lost a lot of capital, and that the Company would need a lot more financial support (much of it from the British Government) if it was to remain independent.
Neville Chamberlain to Lord Curzon, October 17th 1923.
FO 371/9029/119/10990.

3. Both the Foreign Office and the Admiralty sharply attacked the new proposals, on grounds similar to their criticisms of the 1921-22 scheme.
Minute by Weakley, October 19th 1923.
FO 371/9029/119/10990.
(Weakley noted that the A.P.O.C. was not a burden on the taxpayer).

Memo by First Lord of the Admiralty: Admiralty views on the Proposed Sale of the Government Holding in the Anglo-Persian Oil Company, January 10th 1924.

CAB 24/164. CP.20.

but nevertheless the question was referred to the Cabinet in January 1924, when it was proposed to reconstitute the Committee of 1922 to re-examine the question of the companies amalgamation.^{1.} On January 22nd, however, the Conservative Government then in office resigned, and the first Labour Government took office. Within a week the amalgamation proposals had been considered and definitely rejected, primarily for the same reasons which had led to the rejection of the project in 1922.^{2.}

The subsequent fall of the Labour Government in the autumn of 1924 then led to much speculation in the press, the opinion being expressed that the return of the Conservatives to power meant that the sale of the Government's shares in the Anglo-Persian Oil Company would quickly be proceeded with.^{3.} However, any hopes that Shell might have had of getting hold of the Government's much coveted shares were soon dashed. After very little discussion between the Departments, the following official statement was issued to the press

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1. Cabinet Minutes, January 17th 1924. CAB.23/46. 5(24)2.
 2. Cabinet Minutes, January 28th 1924. CAB. 23/47. 8(24)11.
See also Memo by G.L. Barstow (Treasury) on Anglo-Persian Oil Company (January 26th 1924) CAB 24/164. CP. 32.
 3. The "Daily Express" of November 13th 1924, for example, insisted that Baldwin had been in favour of the sale of the Government's shares in the A.P.O.C.
See various newspaper extracts in FO 371/10126/62/9832,9873,9896.

on November 19th 1924:-

His Majesty's Government have informed the Anglo-Persian Oil Company Limited that they have no intention of disposing of the Government holding of shares in the Company. 1.

The omission of any such words as "at present" lent the statement an air of finality.

The amalgamation project and the related issue of the sale of the British Government's shares in the Anglo-Persian Oil Company was never again seriously considered during the period with which this study is concerned, although occasionally a question was asked in Parliament on the subject. The Royal Dutch-Shell Group's long struggle to remedy its early mistake of ignoring Persia as a potential source of oil thus ended in defeat. In view of the tenacity with which successive British Governments have continued to hang on to their much coveted shares, it would seem that the unprecedented action of the Liberal Government in 1914, when the shares were originally acquired, can be considered to have been fully vindicated.

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1. Extract from the "Times" November 20th 1924. FO 371/10126/62/10074.
On November 17th 1924 Sir Warren Fisher had written to Greenway:
"The Prime Minister desires me to inform you that His Majesty's Government have no intention of departing from the policy of retaining these shares".
(Fisher to Greenway, November 17th 1924. FO 371/10126/62/10074).

It can safely be concluded that, had the Conservative Government remained in office early in 1924, instead of being ousted by Labour, the verdict would not have been different.

CHAPTER 5

PERSIA, BRITISH POLICY, AND THE NORTH PERSIAN CONCESSION STRUGGLE1919-1924I. Defence arrangements for the South Persian Oilfields 1919-1924.

After the First World War, the British Government, seeking to make Persia a strong, stable and, above all, a friendly state capable of acting as a buffer between India and newly acquired Mesopotamia on the one hand, and the chaotic and hostile entities taking shape from the ruins of the Ottoman and Tsarist Russian Empires on the other, concluded an Agreement with Persia in August 1919. This Agreement, by which the British Government sought to supplement its traditional influence in Persia, gave Britain the right to supply all advisers, military and civilian, to the Persian Government. (at the latter Government's expense), as well as the right to supply all munitions and equipment for the Persian Army. In addition, provision was made for the encouragement of Anglo-Persian enterprises to develop and improve such things as Persian railways, while Persia was to receive a substantial loan from Britain. ^{1.}

1. Parliamentary Papers (H of C) 1919 (Cmd 300) (iii, 983.
"Agreement between His Majesty's Government and the Persian Government, signed at Tehran 9th August 1919."

The Agreement of August 1919 never became effective, since it remained unratified by the Persians, who disliked the loss of sovereignty which its terms implied.¹ Despite the various accusations made,² however, the Agreement had nothing to do with oil specifically, although obviously the great importance to the Admiralty of Persian oil was a factor in British calculations.³ The Agreement aimed to give Britain a tight control over Persian actions, and thus aimed to secure British strategic control over the oil-fields, but, it can easily be contended, Britain's fear of Russian influence, and the ever-present worries

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1. (Although in the Agreement Britain promised to respect the integrity and sovereignty of Persia).
 2. See for example an article in the "New York Evening Journal" of August 10th 1920. FO 395/350/127/No.P.987.
 3. There is no mention of oil in the text of the Agreement. Oil per se was only one of many factors influencing British thinking (See Memo by Curzon on the Persian Agreement, August 9th 1919 in D.B.F.P., 1st Series, Vol. IV, pp.1119-1122).

about Indian security, were in any case sufficient to ensure British concern for control of Persia. While in one way the collapse of Tsarist Russia might have temporarily weakened the Russian threat, on the other hand the consequent growth of Bolshevism enhanced this threat, making it seem, in some ways, more insidious and dangerous to the British position in Southern Asia.¹.

It is true, however, that once British troops had been withdrawn from Persia after the War, and plans for the disbandment of the South Persia Rifles were being made, great concern was shown, particularly, as one would expect, by the Admiralty, over the defence of the oilfields both from tribal attacks and from possible Russian aggression. At this time the Admiralty was drawing 350,000 tons of naval oil yearly from Persia, and expected this quantity to increase greatly in the future.². The kaleidoscopic nature of Persian politics, and the general instability of Persian Governments during this period, did not give the Admiralty any confidence to rely on Persian obligations (under the

1. In November 1919, for example, a Conference of British Ministers concluded that Bolshevik activity in Persia and Central Asia was "one of the most troublesome problems which the British Empire had to face". (CAB 23/18. C8 (19) Appendix III 1(e).)

2. Memo by W.H. Long, December 24th 1920. FO 371/6399/2/288.

1901 D'Arcy Concession) ^{1.} to defend the oilfields against attack, however, particularly as they were situated so far from the capital, Tehran. At the same time, the Indian Government objected to the keeping of British troops in Arabistan (as Colonel Wilson had suggested) preferring rather to entrust defence to the Sheikh of Mohammerah and the Bakhtiari tribesmen. The Admiralty, therefore, by no means satisfied with this arrangement, appealed to the Cabinet to find an adequate means of defence for the oilfields should the disbandment of the South Persia Rifles be proceeded with. ^{2.}

Nevertheless, by 1922 defence plans were still in a state of flux. While various agreements between the Anglo-Persian Oil Company and the Bakhtiari khans had been successfully concluded in 1921 (and others early in 1922), ^{3.} these had not been welcomed by the Persian Government, which denounced them as a violation of the D'Arcy Concession. The effect of this denunciation, however, was to foster

1. See Introduction, above.

2. The South Persia Rifles, an organization which had helped to maintain the security of the A.P.O.C.'s property during the war, was in fact disbanded in 1921.
(Admiralty Memo for the Cabinet "South Persia Rifles", July 26th 1921. FO 371/6410/25/8736.

3. The Agreements referred to here were not defence arrangements, but concerned the sale of land by the Bakhtiaris to the A.P.O.C. (FO 371/6450/10099/10099.)

closer relations between the khans and the Sheikh of Mohammerah - which closer relationship tended to increase their respective values as defenders of the oilfield and pipeline, a development welcomed by the British Government, although wary of openly encouraging it.^{1.}

A proposal to supplement these arrangements by a local defence volunteer group formed by the Anglo-Persian Oil Company, however, was dropped after Foreign Office and Oil Company objections.^{2.}

Yet, these local arrangements were all the time subject to disrupting influences, both because of the natural animosities between the several tribes and because of the schemes of Communist agitators who played on these animosities.^{3.} Moreover, at their best, these arrangements were not sufficient to deal with any aggression other than from a local uprising or a marauding band. Partly because of this, and because of the undesirability of keeping British troops on Persian soil, in 1922 the Air Staff prepared a plan for the defence of the Persian oilfields from Iraq, with both air and land forces being involved. This plan, however, was conditional on the situation in Iraq permitting its execution, and, moreover, was conditional on replacements being sent from India.^{4.} The Army Council

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1. Loraine (Tehran) to Foreign Office, May 20th 1922.
FO 371/7816/7/5188 Loraine (Tehran) to Foreign Office, August 19th 1922. FO 371/7808/6/8260.
 The Sheikh of Mohammerah was being supplied with rifles by Britain at this time.
(Memo by Lieut-General Sir Aylmer Haldane, May 24th 1922.
FO 371/7817/7/6184).
 2. Foreign Office to Loraine (Tehran) August 28th 1922. FO 371/7818/7/8407.
Committee of Imperial Defence to Foreign Office, December 12th 1922.
 FO 371/7819/7/14002.
 3. Trevor (Bushire) to D. de S. Bray (India) July 7th 1922.
 FO 371/7807/6/8091.
 4. Great Britain, Public Record Office, Air Ministry, Paper prepared by Air Staff for Committee of Imperial Defence 253rd Meeting "South Persian Oilfields Defence Scheme", June 23rd 1931. Air 2/1437. Paper 69A.

obviously had doubts about the efficacy of such a plan, but nevertheless approved it, being careful to add that in giving this approval^{1.} "they took into account the loyalty of the Sheikh of Mohammerah."

As friction grew between the tribes and the Persian central government (now largely, but not as yet completely, controlled by^{2.} Reza Khan, the War Minister), in consequence of the Persian Government's endeavours to extend its area of authority to the remote South Western part of Persia, it became apparent to the Anglo-Persian Oil Company that it ought to negotiate a new defensive agreement with the Persian Government rather than, as hitherto, rely on its^{3.} usual method of local arrangements with the tribes. The British Government actively encouraged the Company in this idea and, moreover,

1. Ibid.

2. Reza Khan was the principal figure in the Persian Army's coup d'etat of February 1921. He became Minister of War, and for some years concentrated on suppressing revolts and restoring law and order in the country. Meanwhile in Tehran the Medjlis was elected - "a heterogenous group that symbolized the futility of Iranian politics." In 1923 Reza Khan countered various plots against him, and became Prime Minister, determined to achieve full control of the machinery of government. In December 1925 he became Shah Pahlevi, the Qajar Shah having earlier left the country, never to return. (Amin Banani, The Modernization of Iran, 1921-1941 (Stanford, Calif., 1961) pp. 31-43).

3. The Company had at first resisted the idea (which had been put forward by Sir P. Loraine), but later was probably convinced of the wisdom of cooperating with the Persian Government by the views of its local representative, Dr. Young. (See various items in FO 371/9029/119/9553, 9644, and 9806).

urged on the Sheikh of Mohammerah the necessity of getting on good
1.
terms with the central government.

Early in 1924, however, a clash between the Persian Government
and the semi-autonomous tribes of South West Persia seemed imminent.
The Air Ministry, worried at the signs of impending trouble, no
longer felt that it would be able to cope with the situation with the
forces then at its disposal, and suggested that permission to send
British troops into the oilfields be sought from the Persian Govern-
2.
ment - a suggestion which was immediately rejected by the Foreign
3.
Office. At this time neither the War Office, the Air Ministry, nor
the Indian Government were willing to accept responsibility for the
4.
oilfield's defence, while the Admiralty, especially anxious for the
security of Persia at this time in view of the Labour Government's
5.
decision not to proceed with the Singapore project, desperately
pleaded that some arrangement be made with the Persian Government
which would ensure that the navy's supplies would be adequately

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1. Loraine (Tehran) to Foreign Office, October 22nd 1923.
FO 371/9029/119/10419.
 2. Air Ministry to Foreign Office, February 12th 1924.
FO 371/10124/27/1366. (See also FO 371/10124/27/1942).
It should be noted that land forces in Iraq had been reduced in
the previous two years. (Air 2/1437. Paper 69A).
 3. Foreign Office Minutes, February 29th 1924. FO 371/10124/27/1942.
 4. India Office to Foreign Office, March 7th 1924 and Minute by
G.P. Churchill, March 25th 1924. FO 371/10124/27/2094 and 2362.
 5. If there were no large oil reserve at Singapore, the navy would
have to rely on Persia almost entirely for its oil supplies for
operations east of the Mediterranean. (See Chapter 2, above).

safeguarded. By July 1924, a reluctant India had been prevailed upon to earmark two brigades to defend the Persian oilfields, in concert with forces from Iraq.^{1.}

The Anglo-Persian Oil Company was naturally alarmed at the situation, and urged the Foreign Office to intervene at Tehran to secure an easing of the tension between the Persian Government and the Sheikh of Mohammerah and the Bakhtiari.^{2.} On August 23rd 1924, therefore, Ovey (Counsellor of Embassy, acting as Chargé d'Affaires at Tehran) was instructed by the Foreign Office to tell the Persian Prime Minister that "vital British interests in South West Persia may be imperilled by his recent administrative measures", and that any serious disturbances in Arabistan could not be regarded with equanimity by Britain.^{3.}

Things were already moving to a climax, however, While it was undoubtedly the British Government's policy at this time to

hold themselves impartial, though inevitably leaning to the regular authority, that is, the Central Government, and to impress both sides with the necessity of maintaining peace^{4.}

and, although prepared to send a ship to Basra, to refrain from involving British troops,^{5.} this policy was by no means being adhered

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1. Minutes of the Committee of Imperial Defence, May 5th 1924.
CAB 2/4. 184th Meeting (2).
Air Ministry, Paper prepared by Air Staff...June 23rd 1931.
Air 2/1437. Paper 69A.
 2. Anglo-Persian Oil Company to Foreign Office, August 18th 1924.
FO 371/10134/263/7136.
 3. Foreign Office to Ovey (Tehran) August 23rd 1924.
FO 371/10134/263/7136.
 4. Foreign Office to Ovey (Tehran) September 23rd 1924.
FO 371/10135/263/8152.
 5. Ibid.
The ship in question was for use against the Sheikh of Mohammerah if necessary.

to by the British Consul at Ahwaz, Peel. Instead, Peel was actively encouraging the Sheikh of Mohammerah in his hostility to the Persian
 1. Government, and the Sheikh, obviously believing that he would have British Government support, was now "determined to overthrow Reza
 2. Khan or perish in the attempt". Appeals from Ovey to the Consul at Ahwaz to reverse his policy fell on deaf ears, and in the end Peel was only induced to desist from his tactics by a stern telegram from Ramsay MacDonald (British Prime Minister and Secretary of State for Foreign Affairs) in which MacDonald insisted that he comply with Ovey's
 3. instructions.

On November 15th, after a personal interview with the Sheikh, Sir Percy Loraine (British Minister Plenipotentiary at Tehran) reported from Mohammerah that he had persuaded the Sheikh to send to Reza Khan (now Prime Minister) a complete apology for his rebellious
 4. actions. It thus appeared that the matter would be settled amicably.
 5. The continued advance of Reza Khan's troops, however, alarmed the

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1. See Peel (Ahwaz) to Ovey (Tehran) September 29th 1924. FO 371/10135/263/8428.
 2. Ovey (Tehran) to Foreign Office, September 11th 1924. FO 371/10135/263/8602.
See also Ovey (Tehran) to Foreign Office, October 4th 1924.
 FO 371/10135/263/8601.
 3. MacDonald to Peel (Ahwaz) October 1st 1924 ("Urgent; Private")
 FO 371/10135/263/8438.
 4. Sir P. Loraine (Mohammerah) to Foreign Office, November 15th 1924. FO 371/10137/263/9926.
 (Loraine was the official British Minister in Tehran; Ovey was Chargé d'Affaires in his absence).
Minute by Mallet, November 17th 1924. FO 371/10137/263/9926.
 5. Reza Khan may have been induced to continue his advance by Russian influence, and by Medjlis criticism of a proposed settlement with the Sheikh.
(Fairley (A.P.O.C. representative in Tehran) to A.P.O.C. (London) November 17th 1924. FO 371/10137/263/9992.
Loraine (Baghdad) to Foreign Office, November 25th 1924.
 FO 371/10137/263/10365.)

British Government, and, feeling that, by submitting, the Sheikh of Mohammerah had put himself in the right, the Foreign Office suggested to Sir Percy Loraine that the Persian Government should be informed of British obligations to the Sheikh,^{1.} and that Reza Khan should be warned that

if the Persian Government persist in attacking the Sheikh, His Majesty's Government must reserve to themselves the right to take such measures as they may think fit in pursuance of their assurances to the Sheikh.^{2.}

By this time, however, the Sheikh's spirit was completely broken, and he was afraid to meet Reza Khan anywhere. Eventually he surrendered, and in April 1925 was removed to Tehran, while Persian Government forces took over his territory and brought it fully under central government control.^{3.}

With the fall of the Sheikh of Mohammerah neither the Anglo-Persian Oil Company nor the British Government had any longer any choice in the matter of the defence of the Persian oilfields. The events of 1924 had amply demonstrated the inability of British arms to intervene to protect the oilfields when the threat came from inside

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1. Explicit assurances to protect the Sheikh of Mohammerah, as long as he in turn fulfilled his obligations to the Persian Central Government, were given by the British Government in 1910, and these were still considered to be applicable.
(Precis of relations of the Sheikh of Mohammerah with the Anglo-Persian Oil Company (Memo enclosed in A.P.O.C. to F.O. August 18th 1924) FO 371/10134/263/7136.
 2. Foreign Office to Loraine (Baghdad) November 25th 1924
("Very Urgent") FO 371/10137/236/10281.
 3. Loraine (Baghdad) to Foreign Office, December 2nd 1924
FO 371/10138/263/10750.
Shwadran, op. cit., p. 57, note 29.

Persia¹. (as opposed to a threat by an external force). Direct intervention by British troops or aircraft would inevitably have led to an outcry both in Persia and in other countries, especially Russia, which countries would have wasted little time in attributing all kinds of sinister motives to British actions. Henceforth Britain would have to rely on the action of the Persian Government itself to protect one of the British navy's main sources of oil; with the rise of Reza Khan, however, this was not so hopeless a situation as it undoubtedly had appeared to be in earlier years - always provided, of course, that the British Government and the Oil Company could keep on good terms with Persia's new and determined ruler.

II. The Armitage-Smith Agreement.

In 1919, relations between the Anglo-Persian Oil Company and the Persian Government were rather strained. While on the one hand the British Government aroused suspicion and hostility

1. The British Government was particularly keen not to have to intervene militarily in Persia at this time because of the difficult Egyptian situation (the British Commander in Chief of the Egyptian Army, Sir Lee Stack, was murdered in Cairo on November 19th 1924).
(Foreign Office to Loraine (Baghdad) November 26th 1924.
 FO 371/10137/263/10366. (See also FO 371/10137/263/10414).)

in Persia (and elsewhere) by the signature of the Anglo-Persian Agreement of August 9th 1919, friction between the Anglo-Persian Oil Company and the Persian Government also arose over diverse matters - and as it was well known that the British Government held a controlling share in that Company, this friction served to enhance hostile feeling in Persia against both the Company and the British Government.

Friction between the Persian Government and the Anglo-Persian Oil Company had arisen during the war over the calculation of the Persian Government's share in the Company's profits. Under Article 10 of the 1901 D'Arcy Concession the Persian Government was to receive 16 per cent of the annual net profits. In the Persian view this applied to the profits from all companies belonging to the Anglo-Persian Oil Company, whether operating in Persia or not. The Company, however, disputed this, stating that Persia was only entitled to profits arising

from companies operating in Persia directly in accordance with the D'Arcy Concession terms. Another point at issue was the cutting of the Company's pipeline in 1915 by Turkish-inspired Bakhtiari tribesmen. The Company held that, in accordance with Article 14 of the Concession, the Persian Government was bound to protect the Company's property; as it had not done so, the Company therefore claimed damages, and insisted on withholding royalties until this claim was settled. The Persian Government, however, disputed its liability in the circumstances, and asked for arbitration.^{1.}

In September 1919 the Anglo-Persian Oil Company agreed to pay the royalties so far withheld, on condition that the Persian Government examine, inter alia, the question of putting the royalties on the basis of a fixed sum of money per ton, instead of keeping to the disputed profits basis. The Company offered to waive the claim relating to the cutting of the pipeline if a satisfactory agreement on royalties was reached.^{2.} Discussions dragged on, however, with various factors impeding a settlement, these factors including the unwillingness of the Persian Government to take any decision which might arouse opposition in the Medjlis, and, much to the Foreign Office's disgust, the refusal of the British Treasury to allow Persia to acquire non-voting shares in the Company as part of a general

1. Shwadran, op. cit., pp.33-34.

2. Memo by Oliphant, September 24th 1919 and Foreign Office to Cox (Tehran), September 29th 1919. FO 371/3880/4303/133719.

settlement.^{1.}

Eventually, after the appointment of Armitage-Smith^{2.} as the representative of the Persian Government in the dispute, an agreement was reached in December 1920, which settled the immediate issues and established a working basis for the settlement of future disputes on the question of payments to Persia.

The Armitage-Smith Agreement provided for the payment to the Persian Government of 16% of all profits arising from the production, refining, and marketing of Persian oil by the Anglo-Persian Oil Company or its subsidiaries, whether carried out on Persian territory or not. This sum, however, was not to include profits arising from tanker transport. What exactly was to be termed a "subsidiary company" was defined, and the various adjustments for dividends, income tax etc. were specifically laid down, thus filling some of the glaring gaps on this question left in the drafting of the original D'Arcy Concession. In a separate Agreement, the Company agreed to pay £1,000,000 to settle all outstanding questions between it and the Persian Government.^{3.}

The Agreement thus reached in 1920 was meant to enable any future disputes between the Persian Government and the Anglo-

1. Treasury to Foreign Office, December 20th 1919. FO 371/3880/4303/164058.
Treasury to A.P.O.C., July 5th 1920. FO 371/4913/243/1317.

(The Treasury's reasons for refusing Persian participation appear to have been financial).

2. A British Treasury Official. See Shwadran, op.cit., p.33, note 49.

3. Ibid., pp.35-37.

Persian Oil Company to be settled quickly and to the satisfaction of both sides. However, the fact that the Persians still remained not entirely satisfied with the amount of revenue they received from the Company, and to some extent distrusted the Company's financial calculations, did not augur well for the future of the Agreement. Nor did the fact that the Persians left the Agreement unratified strengthen the belief that the arrangement thus achieved would be anything more than temporary. (See chapter 12 below).

III. The revival of the Khoshtaria Concession.

On March 9th 1916 the Persian Government granted to a Russian subject, A.M. Khoshtaria, an exclusive concession (for a period of seventy years) for the exploitation of petroleum in the provinces of Ghilan, Mazanderan, and Asdrabad ¹. - part of the northern area of Persia long subject to Russian influence. As the Medjlis was not sitting at the time (and did not meet until several years afterwards)

1. Text: F.R.U.S., 1920, III, pp.351-352.

The Persian Government was to receive 16% of the profits.

(Minerals other than oil were involved in similar concessions to Khoshtaria at this time).

the concession was never ratified. As far as is known, this was the only oil concession granted in the five northern provinces up to this time, with the exception of minor grants to Persian noblemen, notably one Mohammed Vali Khan Sepahsalar, with whom Khoshtaria entered into an agreement some time in the period 1916-1918.^{1.}

The position at the beginning of 1919 was that Khoshtaria had formed the "Rupento Syndicate" of Tiflis to take over his rights, and he had then disposed of some of his shares and rights to the Russian Naphtha Corporation,^{2.} and entered into negotiations for the disposal of the remainder with two British subjects, Messrs Leach and Firebrace.^{3.} The Russian Naphtha Corporation then approached the Anglo-Persian Oil Company in connection with the concession, the latter company at that time viewing this approach with favour, while Messrs Leach and Firebrace approached the British Government on the subject, asking for support and pointing out the "extremely great importance" of the concession "both from the political and economic point of view".^{4.}

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1. Memo on Khoshtaria Concession (enclosed in letter, Firebrace to Foreign Office, March 18th 1919) FO 371/3879/3921/44872.
 2. The Russian Naphtha Corporation: It is not clear whether or not this is the same company referred to as the "Russian General Oil Corporation (Société Générale Naphthifère Russe) Ltd." in W.R.Skinner, Oil and Petroleum Manual (London, 1919) pp.130-131.
 3. Petroleum Executive to Foreign Office, January 15th 1919.
FO 371/3879/3921/8675.
Messrs. Leach and Firebrace were reportedly connected with a Paris firm (Dreyfus), which was thought to be connected with Shell. (FO 371/3879/3921/33586).
 4. Minute by Weakley, January 18th 1919. FO 371/3879/3921/8675.
Memo on Khoshtaria Concession (encl. in Firebrace to F.O., March 18th 1919) FO 371/3879/3921/44872.
Russian concession holders felt the need for British support particularly after the Persian decree abrogating Russian Concessions (see next note). (Cox (Tehran) to Foreign Office, February 27th 1919. FO 371/3879/3921/33586.

On April 11th 1919 an inter-Departmental meeting, at which H.E. Nichols of the Anglo-Persian Oil Company was present, discussed the whole question of the North Persian concession, when it was decided that the British Government's policy should be (as so often in these matters!) one of "wait and see." In view of doubts as to the validity of the Khoshtaria concession - for both the Russian and Persian Governments considered the concession to be no longer valid ^{1.} - it was decided that the acquisition of any rights relating to it should not be recommended to British interests. ^{2.} Later, it was further decided to support Persia should she decide definitely to cancel the concession on the ground that it had lapsed through non-fulfillment of certain terms.

On December 13th 1919 Sir Percy Cox (Acting Minister at Tehran) informed the Persian Government of this decision, adding, however, that the British Government hoped, if it were decided to grant a new concession for the area, that "in the interests of Persia ... an English Company (would) be preferred." ^{3.}

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1. See the Notes on the denunciation of privileges obtained under the Tsarist regime by the Sôviet and Persian Governments in June and July 1918. Text: Hurewitz, op.cit., Vol. II, pp.34-36.
 2. Notes of a Meeting, April 11th 1919. FO 371/3879/3921/62923.
 3. The Concession laid down that Khoshtaria must submit his scheme of operation to the Persian Government within a certain fixed period. According to Foreign Office information at the time, no such scheme of operation had been submitted. The text of Cox's letter is in Shwadran, op.cit., p.83, note 4. (See also F.O. to Cox (Tehran) November 24th 1919. FO 371/3879/3921/150229).

The Anglo-Persian Oil Company was already on the move in this question, however, and on February 24th 1920 it reported having reached a tentative agreement with Khoshtaria, and asked for British Government support.¹ While at first the British Government's view was that support could only be given if the concession applied for to the Persian Government was a new one, later, after examination by the Foreign Office's legal expert, it was concluded that the Khoshtaria concession had not lapsed through non-fulfillment.² On April 9th 1920, therefore, Sir Percy Cox was instructed to support the Anglo-Persian Oil Company's claim to a valid concession based on the rights acquired from Khoshtaria.³ Thereupon the Anglo-Persian Oil Company formed a subsidiary, North Persia Oils, Limited, to work the concession.⁴

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1. Greenway (A.P.O.C.) to Foreign Office, February 24th 1920.
FO 371/3879/3921/180967. The Agreement was finalised on March 25th 1920. (FO 371/3879/3921/188324).
 2. Note by Mr. Sherman (Assistant Legal Adviser to the Foreign Office) April 6th 1920. FO 371/3879/3921/188324.
The Anglo-Persian Oil Company had earlier produced evidence showing that the terms of the Concession had been complied with.
 3. Foreign Office to Cox (Tehran) April 9th 1920.
FO 371/3879/3921/188324.
 4. The Chairman of this company was Greenway; there were two other directors from the A.P.O.C., along with Mr. R.I. Watson (Burmah Oil Co.), and Khoshtaria. The sixth director was a Mr. Djakelly (F.R.U.S., 1921, II, pp.641-2).

An Anglo-Persian diplomatic duel then ensued in which the British contention that the Khoshtaria concession ought to be ratified by Persia was stoutly resisted by the Persians.^{1.} Moreover, after the signature in February 1921 of a treaty between Persia and Soviet Russia which declared all concessions "obtained by force by the Tsarist Government and its subjects" to be null and void, the Persian case was somewhat strengthened. Even had the Khoshtaria concession originally been valid (as the British contended), the treaty now rendered it invalid^{2.} - though in fact, since the treaty also contained a promise by Persia that she would not grant concessions thus surrendered by Russia to subjects of a third power, Persia preferred to maintain her contention that, as it had not been ratified by the Medjlis, the Khoshtaria concession had never been valid. She thus had her hands free to use the concession as bait with which to attract other parties, particularly American concerns, in the hope of securing loans and other financial benefits to herself. In any case, whatever argument Britain put forward, Persia apparently had an adequate answer.^{3.}

1. See various papers under the following references:-

FO 371/3879/3921/206179.

FO 371/4919/910/1346, 1360, 5808, 12950.

FO 371/6413/76/5354.

2. Since Khoshtaria was a Russian subject.

3. Text of the Treaty in Hurewitz, op.cit., Vol. II, pp.90-94. See the Persian Government's replies to British and Russian protests in November 1921.

(FO 371/6417/76/13213 and F.R.U.S., 1921, II, p.649).

The British nevertheless kept up their duel with Persia, despite the fact that the Persians, to reinforce their already strong case, made various embarrassing references to Sir Percy Cox's letter of December 1919 which plainly stated that the British Government "prefer(red) to support the standpoint of the Persian Government in that the Khoshtaria concession is invalid".^{1.}

The whole matter had, however, taken on a rather different complexion by now. In 1920 the Persian Minister in Washington had intimated to the U.S. State Department that approaches for concessions in North Persia by American oil companies would be welcome, and some interest had eventually been shown by the Standard Oil Company of New Jersey.^{2.} The Anglo-Persian Oil Company, becoming, in 1921, rather worried at the evident interest of the American company, then urged the Foreign Office to act to prevent the Persian Government from taking any precipitate action in the matter.^{3.} However, the Foreign Office was by now turning

1. Shwadran, op. cit., p.83, note 4.

Foreign Office to Greenway (A.P.O.C.) January 3rd 1922.
FO 371/7812/7/142.

Sir P. Loraine (British Minister in Tehran) evidently had qualms about supporting the A.P.O.C.'s claims, but the Foreign Office felt that it "(could) not abandon the position (it) ha(d) taken up". (Loraine (Tehran) to Crowe, Dec. 23rd 1921 and Foreign Office to Loraine (Tehran) Dec. 29th 1921.
FO 371/6419/76/14291).

2. F.R.U.S., 1920, III, p.353. See also D.B.F.P. 1st Series, Vol. XIII, p.597.

(The Persians obviously wanted American interests to serve as a bulwark against both British and Russian influences in their country.)

3. Anglo-Persian Oil Company to Foreign Office, June 2nd 1921.
FO 371/6414/76/6361.

The A.P.O.C. also hurriedly began prospecting operations in various areas at about this time (A.P.O.C. to Strick Scott Ltd. (Mohammerah) August 16th 1921. FO 371/6415/76/9450).

its attention more and more towards the positive benefits, as a counter to Bolshevism, of Anglo-American cooperation in Persia, and, moreover, to the need for such cooperation in the whole sphere of Middle Eastern oil, particularly as concerned Mesopotamia, the Mandates question, and the question of the Turkish Petroleum Company. It was, therefore, keen to see the Anglo-Persian Company change its hitherto intransigent attitude to any form of compromise with the Americans.^{1.}

At this time the Anglo-Persian and the Standard Oil Companies were not the only ones in the field, for (amongst other rivals) another American company, the Sinclair Oil Consolidated Corporation, was also showing an interest, the Persians having suggested that the Corporation send a representative to Tehran to begin concession negotiations.^{2.} This apparent threat no doubt influenced a decision made by Greenway some time later to begin negotiations with A.C. Bedford (of the Standard Oil Company of New Jersey),

1. Minute by R.C. Lindsay, June 6th 1921. FO 371/6414/76/6361. By mid-1921 Greenway was becoming rather less intransigent than previously on the subject of cooperation with American interests. Though prepared to cooperate in Northern Persia, however, he was still against such cooperation in Mesopotamia (Petroleum Dept. to Foreign Office, June 21st 1921. FO 371/6414/76/7134).

2. Memo of talk with Persian Minister, by G.P. Churchill, August 20th 1921. FO 371/6415/76/9538. At this time French, Belgian and independent British interests were also endeavouring to gain oil and other concessions in Northern Persia. Moreover, it is a very curious fact that at one time the German Chargé d'Affaires in Tehran was keeping the situation well stirred up by acting as an intermediary for American interests in their rivalry with the A.P.O.C. See especially FO 371/6415/76/9756, 9965, 10027, 10366. FO 371/6416/76/12163. FO 371/6417/76/13677.

who was then in London, on the basis of a fifty-fifty partnership in the North Persian concession - a move which the Foreign Office welcomed.^{1.}

Up to this stage, then, the matter of the Khoshtaria concession illustrates several things about British Middle Eastern Oil policy in the hectic period following the Armistice, in particular its confusion and liability to change with the political wind (see also chapter 3). The British Government had first decided to support the Persian contention that the Khoshtaria concession of 1916 had lapsed, and had indicated this attitude to the Persian Government. Later, after receiving further information and advice, it had veered round to the view that the Khoshtaria concession had not lapsed, and only needed ratification by the Medjlis -- and had then gone on to argue the point with the Persians. This volte face was partly due to British Government sympathy with its protégé, the Anglo-Persian Oil Company, but also it was due to the receipt of more adequate data than that on which it had originally acted. However, the fact that, in the first place, British oil policy was originally based on inadequate data is itself significant, but what is even more indicative of the rather haphazard state of British oil policy

1. (British protests regarding A.P.O.C. claims were still being made in Tehran, however).
Anglo-Persian Oil Company to Foreign Office, November 9th 1921,
and Foreign Office to Anglo-Persian Oil Company, November 11th
1921. FO 371/6417/76/12436.

at this time is that the British Government went ahead and declared that policy to the Persian Government, thereby causing itself later embarrassment. All this was certainly a far cry from the views held by many contemporary, and later, critics that British oil policy was deliberately planned to the last detail, with Machiaevelian cunning, to secure British control of whatever oil could be brought within the British grasp.

Once the initial confusion was over, however, British oil policy began to take more definite shape. In the circumstances it was inevitable that it should veer towards cooperation, rather than competition, with American interests -- but what now complicated the whole question was that certain American interests were in competition with each other.

IV. Anglo-American Stalemate in North Persia

On November 22nd the Medjlis passed a bill approving the granting of a concession to the Standard Oil Company covering the provinces of Azerbadjan, Ghilan, Asdrabad, Mazanderan, and Khorassan, and laying down certain conditions for the grant. Article 5 of the bill was particularly significant in view of Anglo-American cooperative tendencies at this time:-

The Standard Oil Company shall have no right whatsoever to transfer this concession to any government or company or person. Also any participation of other capital must have the consent of the Persian National Assembly. 1.

1. Text: F.R.U.S., 1921, II, p.649.

In view of the evident desire of the Persians to keep the Anglo-Persian Oil Company out of Northern Persia, Standard Oil cooperation with that Company in the area would obviously not be welcome at Tehran.

The Foreign Office decided to protest at the Persian action, but officials were hopeful of the outcome of the Bedford-Greenway negotiations then under way.¹ The Russians also protested, arguing that the Khoshtaria concession was Russian property and would remain so until the ratification of the Russo-Persian Treaty of February 1921 - a view which the Persians immediately rejected.²

Meanwhile the Persians were reported to be "at (their) wits end for money", particularly for money with which to pay the army, and were seeking a loan from the British-controlled Imperial Bank of Persia.³ The British Government, however, was strongly

1. Curzon to Bridgeman (Tehran) November 24th 1921 (and Foreign Office Minutes) FO 371/6417/76/12845.

2. Bridgeman (Tehran) to Curzon, November 24th 1921 and November 29th 1921. FO 371/6417/76/13034 and 13213.

The Persians argued that the Russian argument was irrelevant since, they stated, the Khoshtaria concession had never been valid, because it had never been ratified by the Medjlis.

3. Bridgeman (Tehran) to Curzon, November 27th 1921. FO 371/6417/76/13078.

The Foreign Office had originally opposed any moves to lend money to Persia, as it was felt that by this means the Persian Government would be induced to push the 1919 Anglo-Persian Agreement through the Medjlis. The Anglo-Persian Oil Company and the Imperial Bank, however, had always argued that the opposite tactics would be successful. See:-
FO 371/4906/56/6915 and 8958.

averse to any loan being made to Persia unless, firstly, the Bank did it on its own responsibility, and secondly, unless Persia accepted in writing certain specific conditions. Included in those conditions was the proviso that "existing valid British concessions (should) receive full recognition".¹ The British Government thus endeavoured to take full advantage of Persia's financial weakness to secure, inter alia, the confirmation of the British-held Khoshtaria concession.

The details of an agreement between the Standard Oil Company (N.J.) and the Anglo-Persian Oil Company on the basis of their proposed cooperation were worked out early in 1922. The Standard Oil Company was to have an option to withdraw after one year, and the Persian Government was to be asked to grant a concession to the partnership which included reference to the fact that the Khoshtaria concession was considered to be valid. The Foreign Office was delighted, and the State Department was also pleased at the outcome.²

With the Persian Medjlis, however, it was a very different

1. Other conditions were that Persian intrigues in America should cease, that Persia would not offer the A.P.O.C.'s royalties as security to third parties, and that certain railway concessions already under discussion with British interests should not be offered elsewhere. (Curzon to Bridgeman (Tehran) December 5th 1921 FO 371/6417/76/13187.).

2. Memo by Lindsay, January 23rd 1922. FO 371/7813/7/774. Lorraine (Tehran) to Foreign Office, February 10th 1922. FO 371/7813/7/1572. (Lorraine's information on the U.S. Government's reaction came from the U.S. Charge d'Affaires at Tehran).

story. On February 26th Loraine reported that the Anglo-American concession proposals had been rejected, the main objections being to the preamble, which asserted the validity of the Khoshtaria concession, to the Standard Oil's withdrawal option, and, primarily, to British participation. Later, however, after the two companies had dropped the preamble from the draft concession, and arranged for reference to Anglo-Persian Oil Company participation in the project to be omitted (though that Company would in fact pay half of the operating company's expenses, and receive half of the oil produced), ^{1.} it seemed that there was some prospect of getting the concession proposals through the Medjlis. ^{2.} To facilitate this, the Foreign Office lifted its embargo on the Imperial Bank of Persia granting loans to the Persian Government. ^{3.}

Meanwhile, a hitherto rather disregarded threat to the Anglo-Persian/Standard Oil Company project had grown considerably in magnitude. After much reported plotting, bribery and intrigue among Persian deputies in the Medjlis, and allegedly supported by the Russian Legation, ^{4.} the Sinclair Consolidated Oil

1. Minute by Oliphant, June 27th 1922. FO 371/7817/7/6317.

2. Fairley (Tehran) to A.P.O.C., April 27th 1922. FO 371/7816/7/4572.

3. Foreign Office to Loraine (Tehran) May 8th 1922.
FO 371/7816/7/4637.

4. See various communications under the following references:-
FO 371/7816/7/4572, 5825, 5978. FO 371/7817/7/6149, 7331.
(There is no evidence at this time of any A.P.O.C. or Standard Oil attempts at bribery).

Corporation succeeded, on June 11th 1922, in securing an amendment to the bill of November 22nd 1921 which had authorised the granting of a concession to the Standard Oil Company. The amended bill now authorised the Persian Government to grant a concession for the northern provinces to the Standard Oil Company "or to any American Company independent of outside connections", thus leaving the door open to Sinclair.^{1.}

The Sinclair Corporation had apparently offered a loan of ten million dollars to the Persian Government as part of the concession arrangements. It thus seemed incumbent on the Standard Oil and Anglo-Persian Companies to do the same, and this was arranged.^{2.} The Persians, however, were not yet finished with their advantageous game of promoting competition between the rivals,^{3.} for in mid-September the Persian Prime Minister submitted both sets of proposals (Sinclair's and Standard Oil's) to the Medjlis, which refused to choose between them, retorting

1. Loraine (Tehran) to Foreign Office, June 12th 1922.

FO 371/7816/7/5978.

Neither the Standard Oil nor the Anglo-Persian Oil Company had regarded Sinclair as much of a threat up to this point.

(Minute by Oliphant, March 27th 1922. FO 371/7815/7/3278.)

2. The Standard Oil Company had initially made an offer of a five million dollar loan to Persia. The Foreign Office gave the A.P.O.C. permission to participate (secretly) in the increased offer, using the oil royalties as security.

(Foreign Office to Anglo-Persian Oil Company, August 10th 1922.

FO 371/7817/7/7966) (see also 7752).

3. Loraine suspected that the "bidding" might also be going on at another level, in that possibly the Prime Minister was waiting to see which Company would offer him personally the largest bribe.

(Loraine (Tehran) to Foreign Office, August 25th 1922.

FO 371/7818/7/8505).

that it was the Government's business to do so. On September 25th Fairley (the Anglo-Persian Oil Company representative) reported to his Board that the Persian Government had then picked the best terms from the two Companies' offers, made up a composite draft concession from them, and had submitted it to the Medjlis for approval; the idea apparently was to grant a concession to whichever Company would accept this draft. ¹.

After some opposition within the Medjlis had been overcome, ². a Northern Oil Concessions Bill was passed on June 13th 1923, giving the conditions governing the concession (for four of the five provinces) to be offered to the Standard Oil Company and to the Sinclair Corporation. Of significance to British interests was Article 14, which laid down that the concessionaire could in no circumstances transfer his rights to foreign nationals or foreign governments. ³. This was obviously designed to exclude the Anglo-Persian Oil Company.

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1. Loraine (Tehran) to Foreign Office, September 13th 1922. FO 371/7818/7/9272.
Fairley (Tehran) to Anglo-Persian Oil Company, September 25th 1922. FO 371/7818/7/9835.
 2. The Medjlis wanted to put any money received for the concession under the control of the Financial Adviser. Reza Khan, however, was anxious to get hold of the money - presumably so as to use it for army purposes (Fairley (Tehran) to A.P.O.C., September 25th and September 28th 1922. FO 371/7818/7/9835).
 3. Loraine (Tehran) to Foreign Office, June 30th 1922. FO371/9028/119/6450.
F.R.U.S., 1923, II, pp.713-715.
Loraine (Tehran) to Foreign Office, August 8th 1923 (enclosing translation of "Law of Fundamental Terms".) FO 371/9029/119/8875.
 (Various specific provisions regarding Persian participation, royalties and a ten million dollar loan to Persia were laid down in the Bill).

While the Standard Oil Company refused to accept the proffered concession, the Sinclair Corporation indicated its willingness to do so, and on December 20th 1923 its representative signed a preliminary agreement in Tehran. ¹. Urged on by the Anglo-Persian Oil Company, the Foreign Office, which by this time was beginning to have doubts about the wisdom of remaining involved in the complicated struggle, instructed Loraine to lodge a protest against the Persian action in giving away rights which, it was held, belonged to the Anglo-Persian Oil Company. ². Later, after Persian rejection of this protest, Ovey (Charge d'Affaires in Loraine's absence) was instructed to remain neutral, and to avoid discussing the question. ³.

The reasons for this later Foreign Office instruction were two-fold. In the first place, a scandal over the naval oil reserves

1. Loraine (Tehran) to Foreign Office, October 10th 1923.
FO 371/9029/119/10041.
For the text accepted by Sinclair, see F.R.U.S., 1923, II, pp.720-736.
2. Anglo-Persian Oil Company to Foreign Office, January 1st 1924, and February 15th 1924.
Foreign Office to Anglo-Persian Oil Company, January 5th 1924, and February 22nd 1924. FO 371/10125/44/44 and 1418.
Reza Khan to Monson, March 29th 1924. FO 371/10125/44/3749.
(Loraine had asked for the protest to be deferred until after further discussion of the matter, and the F.O. had agreed to this. However, in Loraine's absence the protest was made by Monson).
3. The Persian Government tried to push the bill through the Medjlis in April 1924, but was blocked by the opposition.
(Nichols (A.P.O.C.) to Oliphant, April 22nd 1924.
FO 371/10125/44/3565.)
Ovey (Tehran) to Foreign Office, May 15th 1924, and Foreign Office to Ovey (Tehran) May 19th 1924. FO 371/10126/44/4282.

at Teapot Dome, ^{1.} in which Sinclair was deeply involved, had caused a great sensation in the United States, and Sinclair's financial position was badly shaken. His chances of raising the required loan to Persia were now held to be very slim. ^{2.} The Foreign Office was by no means disposed to ease this situation for Sinclair by responding to tentative American approaches for a joint Anglo-American loan to Persia; ^{3.} on the

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1. In mid-1923 the U.S. Senate Investigating Committee began to investigate the circumstances of the lease of naval oil reserves at Teapot Dome and Elk Hills to the Sinclair Oil Company and the Doheny Pan American Company. As a result of these investigations several people, including former Secretary of the Interior, Fall, were found guilty of taking bribes in connection with these leases, and were sent to prison. (On this see M.N. McGeary, Gifford Pinchot (Princeton, New Jersey, 1960), pp.331-333, and J.L. Bates, The Origins of Teapot Dome (Urbana, Illinois, 1964)).
 2. It was reported that Sinclair had even made approaches to British interests in an attempt to raise a loan in connection with the concession.
(Memo by Oliphant, April 30th 1924. FO 371/10125/44/3818.)
 3. See Ovey (Tehran) to Foreign Office, May 15th 1924.
FO 371/10126/44/4282.

other hand it was not felt politic to worsen Anglo-American relations in Persia by either a direct rejection of these approaches or by overtly opposing Sinclair's concession, beyond the protest already made on the subject. In the second place, the Foreign Office had now come to the conclusion - and this idea must surely have been in the back of some officials' minds all along - that if the Anglo-Persian Oil Company was to secure the North Persian concession, conflict with Russia on the subject would be inevitable. It would therefore be better, if was felt, for an American Company to have the concession; in any case, that Company would have to secure the Anglo-Persian Oil Company's permission if it desired to pipe the oil through Southern Persia.^{1.}

The murder in Persia of the American Vice Consul, Major Imbrie, on July 18th 1924, then struck a fatal blow at any remaining chance Sinclair had of floating a loan on the American market.^{2.} In 1925 the Sinclair Corporation informed the Persian Government that it was unable to pursue the matter further, giving as the reason that the attitude of Soviet Russia prevented it from doing so. As is evident from the above, however, this was not the sole reason, although obviously it was an important one.^{3.}

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1. (Because of the terms of the D'Arcy Concession of 1901).
Minute by G.P. Churchill, May 16th 1924. FO 371/10126/44/4282.
 2. F.R.U.S., 1924, II, pp. 548-549.
Shwadran, op. cit., p. 94.
 3. According to Nikpay, Sinclair had various arrangements with Soviet Russia, all of which were contingent on Sinclair being able to raise a large sum of money for the exploitation of certain Russian oil lands in cooperation with the Soviet Government. The Teapot Dome scandal prevented Sinclair from raising the money required, and therefore all the arrangements, including, presumably, an agreement to allow oil to be exported from the North Persian concession through Soviet territory, fell through. (G.H. Nikpay, "The Political Aspects of Foreign Oil Interests in Iran down to 1947". Unpublished Ph.D. thesis, University of London, 1956, page 409.

The collapse of the Sinclair project led to some further approaches by Persia to the Standard Oil Company, which company, however, refused to take up the project again unless the Anglo-Persian Oil Company also was involved in it. Some talks on the subject took place between Millspaugh (the Financial Adviser in Persia) and Greenway in August 1925, but nothing came of them. There, until the mid-1930's, the^{1.} matter ended.

In the question of the North Persian oil concession, one might well ask what the fuss was all about. True, with the oilfields of the Caucasus on one side, the rich South Persian fields on the other, and with the proximity of the supposedly rich oil lands of Iraq, there was perhaps some justification for expecting that at least part of the area would be rich in petroleum, and therefore valuable. Nevertheless, oil was not of much use unless it could be transported, economically, to the consumer. Oil from the northern provinces of Persia could only reach the world's markets by three routes: over the mountains to a South Persian port; across Iraq from where in due course a pipeline was supposedly going to be laid to the Mediterranean; or to Baku, and from thence by the established routes already taken by Russian oil. All of these routes had certain drawbacks from the economic point of view, which drawbacks might perhaps have proved

1. British Consulate General (New York) to H.M. Ambassador (Washington) February 27th 1925, and Oliphant to Sir E. Howard (Washington) December 16th 1925. FO 371/10847/1539/1539 and 7723.
On the Amiranian Oil Company's activities in North Persia in the mid-1930's, see Shwadran, op. cit., pp.95-99.

prohibitive, while, even if the political difficulties concerning the Iraqi route could probably have been overcome, those involved in securing a route across Soviet Russia were particularly forbidding. Moreover, whatever route was chosen, Russia was likely to make untenable the position of any operating company of whose presence in the area she did not approve.

The Anglo-Persian Oil Company can hardly have been greatly desirous of developing this territory had it secured the concession; no doubt its prime aim was merely to prevent others from doing so.^{1.} Once having taken up the Khoshtaria claim, however, the Company doubtless had another motive for its actions - to prevent Persia from rejecting this claim out of hand, in case it became a precedent for a later challenge to the D'Arcy concession.

The British Government supported the Anglo-Persian Oil Company largely because it was in the habit of doing so; as has been shown, the Foreign Office was not itself especially keen on the idea of the Company getting the concession, and not even the Admiralty could have made out a really convincing argument for it from the strategic point of view. In the British Government's view it was better to let another power, the United States, bear the brunt of whatever complications arose from the presence of a capitalist organization in

1. Nikpay makes the point that if the Sinclair Concession had become a working proposition, the Anglo-Persian Oil Company would have been strongly pressed by the Persian Government to modify the less favourable terms (to Persia) of the D'Arcy Concession. (Nikpay, op. cit., p. 412).

an area considered by the Soviet Union to be of strategic importance.

The struggle over the North Persian Oil Concession may seem now to have been rather pointless, but it is nevertheless of some importance in the context of this present study. Firstly, it provides an example of the confused state of British Government policy on oil matters in the immediate post-war years. Secondly, it illustrates to some extent the general state of Anglo-American relations in the Middle East at this time: the two nations, although rivals, were not so diametrically opposed in interests that compromise could not easily be sought and found. Thirdly, the North Persian concession struggle had some bearing on the more important Anglo-American struggle over Mesopotamian oil. Once cooperation in one area was envisaged and accomplished, it became easier to accept the idea of cooperation in other areas. The meetings between Standard Oil (N.J.) and Anglo-Persian Oil Company officials over the North Persian concession issue helped to pave the way for an understanding on the more delicate and difficult issue of American participation in the Turkish Petroleum Company. They thus also helped to bring to an end the bitter Anglo-American controversy over oil which had soured relations between the two nations since the Armistice.

CHAPTER 6

PROBLEMS AT THE LAUSANNE CONFERENCEI. The first phase: Mosul

The Lausanne Conference was called in November 1922 for the purpose of negotiating a peace settlement with Turkey, since the 1920 Treaty of Sèvres was a dead letter.¹ One of the questions it was hoped would be resolved at this conference was that of the Mosul vilayet, which area, although included in the British mandated territory of Iraq, was claimed as still Turkish territory by the Turkish Nationalist Government.²

Great interest was shown by all parties, whether directly involved or not, in the Mosul question, the importance of which seemed greatly enhanced by the possibility that the disputed area was tremendously rich in oil (although, as yet, no full scale prospecting had been done there). Newspapers reported interviews with Turkish officials in which Turkish preoccupation with the disposition of Mosul was prominent - as were occasional hints that American participation in the oilfields therein would be

1. See Chapter 3, Section I. (above).

2. The Iraq-Turkish frontier at this time corresponded with the positions held at the time of the cease-fire in October 1918.

welcome to Turkey. ^{1.}

The British Foreign Office was naturally wary, and was particularly worried about the attitude of the Standard Oil Company (N.J.), then negotiating entry into the Turkish Petroleum Company, in case it should decide to abandon its negotiations and pursue some independent line with Turkey. ^{2.} The Admiralty, too, interested itself in the Mosul question. On November 28th, 1922, the Foreign Office was informed that:

My Lords consider it a matter of considerable importance that the future oil output of the Mosul and Baghdad area should remain under British control through the medium of the Turkish Petroleum Company, and that British influence in Iraq should therefore be in no way weakened the preservation of British prestige in Iraq should have an important bearing upon the security of the Persian oilfields, from which the Admiralty obtain about half the Navy's peace time requirements of oil fuel.

For these reasons my Lords would view with concern the possibility that Mosul should be returned to Turkey, but They will be glad to learn that in any event the claims of the Turkish Petroleum Company to develop the oilfield will be supported. ^{3.}

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1. Mustafa Kemal told a special correspondent of the "Chicago Tribune" that there was "nothing against American exploitation of oilfields in Turkey, as America has no political ambitions in our country" - having earlier stated that he regarded Mosul as Turkish territory.
(Foreign Office, Extract from Manchester Guardian September 27th 1922. FO 371/7784/132/10306.
 2. At this time the negotiations were at a standstill owing to the Anglo-Persian and Anglo-Saxon Companies' disagreement on the terms of American participation. See Chapter 3 above.
 3. Admiralty to Foreign Office, November 28th 1922.
FO 371/7784/132/13539.

The opening of the Lausanne Conference was naturally preceded by much study by British Government officials of the questions and issues involved. Of interest is a memo prepared for the Cabinet by the Colonial Office which examined the question "Why did Britain go to Iraq?". Some of the advantages of Britain retaining her position in Iraq were there stated to be: firstly, it would facilitate the maintenance of an Empire air route; secondly, it would give Britain some control over the oil resources of the country; thirdly, it would allow the grain and cotton potentialities of Iraq to be developed, with advantage to Britain; fourthly, the head of the Gulf would be kept out of enemy hands, and fifthly, it would make possible the maintenance of an Arab State, friendly to Britain, between Turkey and Persia.^{1.}

When these points are correlated with the current British view that

Mosul cannot be given away without loss of Irak and collapse of Irak kingdom, nor collapse of Arabs without return of Turks and final defeat of British policy in the East, 2.

then one can clearly see that, whatever waverings occurred in the minds of some British statesmen,^{3.} and however exaggerated this

1. Note prepared by Colonial Office, November 20th 1922.
CAB 27/206. Paper IRQ2.

2. Curzon (Lausanne) to Foreign Office, December 6th 1922.
FO 371/7965/13003/13695.

3. "I found Bonar longing to clear out of Mosul, the Straits, and Constantinople, willing to give up anything and everything rather than have a row..."
Letter from Lord Curzon to Lady Curzon, January 1st 1923,
quoted in: Lord Ronaldshay The Life of Lord Curzon Vol.III
(London, 1928) p.332. (Bonar Law was Prime Minister at the time).

latter view might have seemed to some people,¹ the possibility of Britain allowing the Turks to obtain the whole of Mosul without a tremendous struggle was extremely small.² In fact, the British Cabinet decided, four days before the Lausanne Conference, that Curzon (Britain's chief representative) was to be authorised to "refuse to discuss any proposal which the Turkish delegation might make for including Mosul within the Turkish frontiers".³ One reason for this decision was stated to be that Mosul had already been given to Iraq, and, furthermore, that the Anglo-Iraqi Treaty of October 1922 laid down that there should be no cession of Iraqi territory.⁴

1. Lord Curzon was, of course, noted for his rather exaggerated views on strategical matters affecting the British route to India and the Far East.

2. Had they held any great fear of the outcome, the British Government would no doubt somehow have avoided anything like arbitration such as they eventually entrusted to the League.

3. Cabinet Minutes, November 16th 1922.
CAB 23/32. 67(22)2.

4. Ibid.
Article VIII of the Anglo-Iraqi Treaty of October 10th 1922 begins:-
"No territory in Iraq shall be ceded or leased or in any way placed under the control of any Foreign Power;...."
Text: Hurewitz, op. cit., Vol.II, pp.111-114.

At the very beginning of the Lausanne Conference there seemed some possibility of an Anglo-Turkish deal being concluded by which Mosul would be retained by Iraq, with certain frontier modifications in Turkey's favour, in return for which Turkey would receive some share in Iraq oil.¹ Hopes of such an easy solution quickly faded, though, when on December 6th the Turkish Delegation told Curzon that Turkey was prepared to meet Britain on all the other disputed points between the two countries, but only if she could have Mosul.² There would in any case have been difficulties about giving the Turks a direct share in the Turkish Petroleum Company, however, especially since, in addition to the French and American complications,³ there remained still the question of Italian participation - an issue which Curzon endeavoured to keep "on the shelf" during the Conference by promising the Italians some share of Iraqi oil once the Mosul question was settled.⁴

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1. Curzon (Lausanne) to Foreign Office, November 28th 1922
FO 371/7964/13003/13286.
Curzon (Lausanne) to Foreign Office, December 1st 1922
~~FO~~ 371/7785/132/13523.
Iraq had already been sounded on the question (see Curzon's communication of December 1st above).
 2. Curzon (Lausanne) to Foreign Office, December 6th 1922
FO 371/7965/13003/13695.
 3. See Chapter 3, above.
 4. Curzon (Lausanne) to Foreign Office, December 1st 1922
and December 17th 1922.
FO 371/7785/132/13523 and 14205.

In an attempt to meet Turkish demands half-way, Curzon put forward for the Cabinet's consideration a plan whereby a compromise might be made with the Turks by offering them the wholly Kurdish part of the Mosul vilayet, as well as some participation in oil. The Iraqis apparently had acquiesced in this idea, as long as none of the Mosul plain were ceded.¹ The Cabinet, however, rejected Curzon's compromise suggestion, largely on the grounds that cession of the suggested territory would eventually lead to Turkish encroachment on the whole vilayet, and that any such cession would greatly increase the difficulty and expense of defending Iraq.² Among the opponents of Curzon's suggested compromise was, almost inevitably, the Admiralty, who pointed out that, although the strip of territory which Curzon had suggested should

1. Curzon (Lausanne) to Foreign Office, December 6th 1922.
FO 371/7965/13003/13695.

The area to be ceded to Turkey was to follow the line of the mountains, including Keui Sandjak, Rowanduz and Suleimanieh, but not Amadia, Mosul town, or Erbil Kirkpa.
See Map at p. 203.

2. Cabinet Minutes, December 7th 1922.
FO 371/7966/13003/13791.
Foreign Office to Curzon (Lausanne) December 8th 1922
FO 371/7966/13003/13812.



- Frontiers. x-x Boundary of the former Ottoman vilayet of Mosul.
 ~ Rivers. — The "Brussels Line" laid down by the League Council.
 - - - - - Northern frontier claimed for Iraq by Britain.
 - - - - - Southern limit of Turkish occupation under status quo, July 1923.
 ▨ Land over 1500 feet.

THE MOSUL BORDER AREA (1924-25)

Sources: Map prepared from information in:-
 R.I.I.A., Survey, 1925, I (end map).
 Longrigg, Iraq, 1900 to 1950 (end map).

be ceded, "did not actually include the land where oil was likely to be found... it was in close proximity to it".^{1.}

Meanwhile, a duel of memoranda on the Mosul question had developed between Curzon and Ismet Pasha.^{2.} On the one hand Ismet endeavoured to prove, by historical, geographical, economic, ethnic, strategic and other arguments, that Mosul was indispensable to Turkey and belonged to her of right, while on the other hand Curzon endeavoured to prove the contrary, that Mosul should belong to Iraq.^{3.} Curzon also, in this exchange, emphasised the British

1. Cabinet Committee on Iraq; Minutes, December 8th 1922.
FO 371/7967/13003/14238.

2. Ismet Pasha. (Inonu) 1884-
In 1918 was Under Secretary in the Ministry of War, Constantinople, until he left to join Mustafa Kemal's forces. In 1922-23 Ismet was Minister of Foreign Affairs. (In later years he served as Prime Minister, and as President of the Turkish Republic).

3. In Curzon's memo of December 14th he stated that 11/12ths of the population of Mosul (including 7/12ths Kurds) had no affinity with the Turks and did not want union with Turkey; the economic relations of Mosul were with Baghdad, not Asia Minor; if the Turks had Mosul they would be able to menace the rest of Iraq; he dismissed the 'historical argument' as "not one to which importance can properly be attached."
Curzon to Ismet Pasha; Memo on Mosul, December 14th 1922.
FO 371/7966/13003/14103.
In contrast, Ismet Pasha stated that 4/5ths of the population had affinity with Turkey and wanted union with that country; the economic ties of Mosul were stronger with the North than the South; Mosul was indispensable to Turkey, and would never menace Baghdad. He also elaborated on the historical argument, and advanced other arguments to do with the climate and terrain, and invoked the National Pact as an argument for Turkey getting Mosul. Ismet Pasha to Curzon, December 23rd 1922. FO 371/7968/13003/14402.
And the Kurdish view? - "I no like any Government, I no like British Government, Turkish Government, Russian Government, or Arab Government. I farmer. I no like politics." (words of Kurdish deputy for Diarbekir).
Minute by Forbes-Adam, January 30th 1923. FO 839/16/file 44/1305.

obligations in the matter, in that Britain had promised to free the Arabs from Turkish rule, had promised to give the Kurds autonomy in Iraq (at San Remo, when she accepted the Mandate), and had an obligation under the Anglo-Iraqi Treaty to see that no territory was ceded by Iraq.¹ There was, however, it should be noted, no specific mention of oil in any of these memoranda.

While this was going on, the attitude in Iraq remained positive: no cession of Mosul. As to oil, it was felt that it was a strong asset to the country, and consequently should not be lightly disposed of by Britain.²

Neither of the protagonists in the duel of memoranda succeeded in making any impression on the other; the question of Mosul was therefore no nearer solution as the Conference continued on into 1923.

The British delegates at this time were becoming increasingly concerned at the activities of the American observers at the Conference, who were thought to be intriguing with the Turks - though the evidence for these intrigues was not felt by the British to be sufficiently tangible to warrant formal complaint to

1. Curzon to Ismet Pasha, December 26th 1922.
FO 371/7967/13003/14464.

2. Extract from a letter (unspecified as to source) included in Note by First Lord of the Admiralty, December 26th 1922
CAB 27/206. Paper IRQ.15.

the American Government. ^{1.} Another source of annoyance was the Turkish economic experts in London, who were attempting to arrange for a British syndicate to work oil in Mosul, and, in addition, were spreading propaganda that the only remaining point at issue preventing signature of a treaty was Mosul. In their efforts they had succeeded in interesting two British Members of Parliament, and had even made certain tentative agreements with them. ^{2.} Moreover, involved in all this was the notorious Rickets who, besides feeding the Turks with wild tales of dissensions in the British Government and of plans to by-pass Curzon at Lausanne, was reputedly in constant touch with Russian officials. ^{3.}

Curzon was, of course, greatly annoyed by reports which he received of these intrigues, and he urged that an official repudiation of the various mis-statements being put about be made. ^{4.}

1. Minute (E. Forbes Adam, February 7th 1923 ?)

FO 371/8994/91/1434.

See also G. Maitland Edwards to Colonial Office, February 12th 1923 and Minute by Weakley, February 19th 1923.

FO 371/8995/91/1945.

Geddes(Washington) to Foreign Office, January 5th 1923.

FO 371/9059/1/579.

2. See various letters, minutes, extracts etc. in FO 371/9059/1/589.

3. Rickets was an adventurer who meddled in various political and commercial matters, and was well known to the Foreign Office.

Minute by Forbes Adam (Lausanne) (for Curzon) January 13th 1923

FO 839/16/44/1045.

4. Curzon (Lausanne) to Eyre A. Crowe (F.O.) January 13th 1923.

FO 839/16/44/1045.

See also FO 371/9059/1/589.

Turkish propaganda, however, was to some extent effective, as shown by a minute of January 9th 1923 written by Sir Eyre A. Crowe at a time when the Lausanne negotiations were deadlocked on several matters. There was no question, wrote Crowe, of negotiations with the Turks in London, and everything must go through Curzon at Lausanne. Nevertheless, he wrote:

I found it hard - practically impossible - to convince the P.M. that this whole affair was nothing but a clumsy Turkish manoeuvre to circumvent Lord Curzon at Lausanne, and deserved no consideration whatever, nor their statements any credence. The Prime Minister remains obsessed with the idea that Mosul is the sole obstacle to a settlement with Turkey, although I have shown him the Intercepts which in no way confirm the allegation - in fact refute it - that on all other questions the Turks are ready to give way. 1.

The Mosul question came up before the Frontier Commission late in January 1923. No settlement was reached, and the dispute was referred to the Secretary General of the League of Nations. However, at the Turks' request, the League agreed to defer proceedings for one year while British and Turkish negotiators sought to reach an amicable agreement on the question. 2.

The Mosul dispute, therefore, was still unresolved at this

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1. Minute by E.A. Crowe, January 9th 1923. FO 371/9059/1/589.
 2. Curzon (Lausanne) to Foreign Office, January 23rd 1923.
FO 371/9060/1/830.
Parliamentary Papers The Lausanne Conference on Near Eastern Affairs 1922-23; Record of Proceedings, Cmd 1814 (1923) xxvi,1, pages 403-404.
See also FO 371/9061/1/1050 and Shwadran, op.cit., p.227.

stage. Neither the British nor the Turks were willing to yield, but instead had doggedly put forward their opposing views, and were, it appeared, quite ready to continue doing so either in private negotiations or before the League. The Turks no doubt fought for Mosul for territorial, political and prestige reasons, while the British interest was primarily strategic and political, in that Mosul was considered strategically necessary. adequately to defend Iraq, and desirably politically in order to placate Iraqi opinion and thereby make easier the task of British guardianship. As for the oil potentialities of the area, these were secondary considerations on both sides. While the Turks might use promises of oil concessions in Mosul to attract, for example, American support for their cause, oil in itself was not the Turks' prime reason for wanting the territory. The British, too, though anxious to secure control of the supposedly rich (though still undiscovered) oil fields of Mosul, had other, even stronger reasons for resisting the Turks' demands. But, however this might be, neither side had entirely dispelled the notion current at home and abroad that their respective stands on Mosul were to a large extent determined by the area's reputed oil potentialities -- a notion given rather more credence, however, with regard to the British attitude than to the Turkish.¹

1. There is undoubtedly sufficient evidence available to enable the British attitude to be determined with confidence, but the available evidence for the Turkish attitude is of a less concrete nature. The opinions on the Turkish attitude given above are therefore rather conjectural.

Here then we see a need to keep Britain's Middle Eastern oil policy as a whole in perspective. Oil was an important consideration in Britain's overall policy with regard to the Middle East, but it was by no means the only one, nor was it the most important. Other more traditional considerations of Imperial strategic policy carried far more weight. The Middle East lay astride the route to India -- and that itself was sufficient cause for the British to be concerned with its defence against any force likely to be hostile to the British Empire.

II. The Concessions Protocol

At the end of 1922 the Turkish Petroleum Company had written to the Petroleum Department with the request that His Majesty's Government take steps to secure the express recognition of the Company's rights at the Lausanne Conference.¹ At that time Curzon had agreed that it would be desirable to confirm the Company's rights in Mosul by a treaty provision,² and this aim thus came to form part of the British Government's desiderata at the Lausanne negotiations.³ As the Conference had continued

1. Turkish Petroleum Company to Petroleum Department, December 29th, 1922. FO 371/8994/91/92.

See also Turkish Petroleum Company to Petroleum Department, November 8th 1922. FO 371/7784/132/12597.

2. Or if Mosul went to the Turks, by some provision outside the Treaty. See Petroleum Department to Foreign Office, January 1st 1923. FO 371/8994/91/92.

3. Amongst the points put forward as being most desirable to reach agreement on with the Allied Powers at the Lausanne Conference was included:--"Insistence upon recognition by Turkish Government of Allied pre-war concessions..."(The Turkish Petroleum Company's concession was later selected for specific mention). Appendix I to Cabinet Minutes, November 16th 1922. CAB 23/32. 67(22)1.

and the Mosul question was still unresolved, this aim did not lessen in importance, and, in fact, by April 1923 it had assumed even greater importance following the grant of a concession to an American group, known as the Chester group, ^{1.} by the Angora Government.

The concession granted to the American Chester group, which had pressed pre-war claims based on an unratified railway concession over parts of the Ottoman Empire (including a line through Kirkuk and Mosul), ^{2.} covered the construction of 1,200 miles of railway in Asia Minor and the Mosul vilayet, and gave oil rights for twenty kilometres on each side of the line. As such, its signature on April 29th 1923 ^{3.} drew protests from both the British and the French Government, the latter on account of

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1. A consortium of diverse American (and Canadian) interests, of whom the principal figure was Admiral Colby M. Chester (see below for further details).
 2. The American Admiral Chester had secured the signature of the railway concession by the Turkish Grand Vizier, after which the concession had gone to Parliament for ratification in 1911. For various reasons, however, the concession was never ratified.
See Shwadran, op. cit., pp.197-198.
 3. See: Rumbold (Constantinople) to Foreign Office, March 27th 1923. FO 371/9149/2104/3384.
Geddes (Washington) to Curzon, February 26th 1923.
FO 371/9149/2104/2104.
Henderson (Constantinople) to Foreign Office, April 30th 1923.
FO 371/9150/2104/4354.

the conflict between the Chester concession and certain French pre-war railway claims, the former on account of the fact that the concession covered territory held to belong to Iraq. ^{1.}

The Foreign Office was particularly concerned in case the United States Government took up the project and used it to demonstrate that the Turkish Petroleum Company's pre-war claims in Mosul were by no means indisputable. The Foreign Office also suspected that one at least of Turkey's motives in granting the concession was the desire to enlist American support in the Mosul controversy. ^{2.} However, as the major American companies showed great reluctance to back the Chester project, the State Department held aloof. The American press also, after first welcoming the scheme, later became more cautious and began to urge Anglo-American cooperation in the Middle East (as in North Persia) rather than outright competition. ^{3.} A public quarrel between the son of the principal founder of the Chester Group (Admiral Chester) and a Canadian colleague, Clayton Kennedy, ^{4.} immediately after

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1. Henderson (Constantinople) to Foreign Office, April 30th 1923.
FO 371/9151/2104/4604. (enclosure Henderson to Dr. Adnan Bey).
Rumbold (Lausanne) to Curzon, June 4th 1923. FO 371/9151/2104/5883.
 2. Minutes by Lindsay, April 13th 1923 and April 18th 1923 and
Minute by Curzon April 14th 1923. FO 371/9150/2104/3775.
See also Henderson (Constantinople) to Foreign Office April 30th
1923. FO 371/9151/2104/4604.
 3. Minute by Oliphant, April 30th 1923. FO 371/9150/2104/4281.
 4. Clayton-Kennedy had the power of attorney for the Ottoman American Development Company, in which Admiral Chester had 40% of the shares.

the signature of the Agreement, brought to a head bitter dissensions within the Chester Group (that is, the Ottoman-American Development Company ^{1.}), which greatly lowered the prestige of the group, thus weakening its ability to secure financial backing, and hence detracting from its supposed threat to the Turkish Petroleum Company's claims. Eventually, through lack of financial support, the group was unable to fulfil its obligation to start operations in November 1923, and the concession was cancelled. ^{2.}

Although, as shown above, the threat to the Turkish Petroleum Company's claim from the Chester project turned out to be of no consequence, this was not entirely foreseeable in the circumstances. The latent threat of the project, therefore, was an added incentive to the British Government to ensure that a provision confirming the Turkish Petroleum Company's rights be inserted in the treaty to be concluded at Lausanne.

As the Lausanne Conference neared its close in July 1923, Sir Horace Rumbold ^{3.}, who had replaced Curzon as chief British

1. This Company had acquired all the rights of the former Chester-backed concern, the Ottoman Exploration Company, in March 1922. Shwadran, op. cit., p.220.

2. See Henderson (Constantinople) to Foreign Office, May 14th 1923 FO 371/9151/2104/5150.
Commercial Secretary (Constantinople) to Department of Overseas Trade, December 19th 1923.
 See also F.R.U.S. 1923, II, p.1251.

3. Sir Horace Rumbold. 1869-1941.
 For the first session of the Lausanne Conference Rumbold had been Second Plenipotentiary. When negotiations were resumed he became Chief Delegate.
 Rumbold had had a varied diplomatic career. From 1920 to 1924 he was High Commissioner, then Ambassador, at Constantinople.

delegate for the second phase of the negotiations, had succeeded in securing some measure of agreement on the inclusion of a clause relating specifically to the Turkish Petroleum Company, which he described as containing a "simple affirmation of validity and maintenance of pre-war concession." ¹. The Americans, however, protested against Rumbold's clause, as did Ismet Pasha, who put forward a modified version, which Rumbold considered unacceptable. Eventually, Rumbold had to yield, rather than risk a rupture at so late a stage in the negotiations, when so many other points in the treaty had been settled and only awaited signature. ².

The position was not accepted immediately by Lord Curzon, who telegraphed to Rumbold on July 18th that he was:-

1. Rumbold (Lausanne) to Foreign Office, July 9th 1923.

FO 371/9086/1/7114.

The text was:- "Les droits acquis par la compagnie petrol de Turquie, en vertu des arrangements intervenus en dix neuf cent quatorze, ainsi que les obligations, découlent pour la dite société anonyme de ces arrangements sont valables et maintenus." This may be found in FO 371/9087/1/E7251, being a copy of part of a paper in E7250 (E7250 is still closed until 1974).

2. Rumbold (Lausanne) to Foreign Office, July 13th 1923.

FO 371/9087/1/7258.

See also Secretary of State to the Special Mission at Lausanne, July 10th 1923 in F.R.U.S., 1923, II, pp.1031-1034.

(Or U.S. National Archives, Microfilm Roll M722/24, No.0562-0570). For American approaches to Ismet, aimed at stiffening his attitude against the T.P.C. concession, see F.R.U.S., 1923, II, pp.1025-26, 1029-30.

most uneasy at learning that you jettisoned case of Turkish Petroleum Company whose claims I repeatedly emphasised in discussion when at Lausanne regarding Mosul Unless you are convinced that my apprehensions are not fully justified you should insist on putting back the Turkish Petroleum Company into the Protocol. I object very strongly to additional validity given to Chester by our surrender. 1.

It was too late, however, to fight any longer for what was, after all, a secondary question in the conclusion of the Peace Treaty, as Rumbold explained the following day. He believed, he said, that Ismet had instructions to break rather than to yield ², and if it had come to a break, then the Allies "and considerable section of world opinion, would have accused His Majesty's Government of destroying certainty of peace for sake of British oil interests" ³. This explanation was accepted by Curzon, who could hardly have done otherwise in the circumstances.⁴

1. Curzon to Rumbold (Lausanne), July 18th 1923.
FO 371/9089/1/7723.

2. Ismet Pasha was certainly tied down tightly by his Government, and he himself complained bitterly of this.
Henderson (Constantinople) to Foreign Office, June 27th 1923
FO 839/50/9/1028.
See also Minute by Osborne, July 20th 1923. FO 371/9088/1/7527.

3. Rumbold (Lausanne) to Foreign Office, July 19th 1923.
FO 371/9088/1/7527.

4. Curzon to Rumbold (Lausanne), July 20th 1923.
FO 371/9088/1/7527.

The Turks were delighted with their "unimaginable success"^{1.} on this point, and doubtless felt that it increased their chances of securing American support over Mosul. The collapse of the Chester project, however, and the obvious preference of the Standard Oil Company for the Turkish Petroleum Company precluded any really firm American support for the Turks on the Mosul question.^{2.}

The Turkish Petroleum Company was naturally displeased at the outcome of the Lausanne negotiations, but, despite protests to the Foreign Office, had to be content with Rumbold's public declaration to the Conference on July 17th:

mon Gouvernement considère toute les obligations contractées par le Gouvernement ottoman en 1914 envers le T.P.C. comme conservant leur pleine force et valeur et comme liant le Gouvernement turc sur toute territoire qui restera turc à la suite de paix. 3.

- a statement which Ismet Pasha by no means accepted.^{4.}

1. Ismet Pasha to Ministry for Foreign Affairs, Angora, July 18th 1923. (This is an intercepted telegram referred to in G.H.Q. Constantinople to War Office, July 21st 1923)
FO 371/8995/91/7665.
2. The Foreign Office, however, were highly suspicious of American intentions at the end of the Lausanne Conference. See Foreign Office Minutes, July 18th 1923. FO 371/9087/1/7399.
3. Minute by Morgan (quoting Handbook of the Lausanne Conference) September 19th 1924 FO 371/10085/13/8068.
4. Ismet Pasha replied (extract):-
"Je declare que les declarations de la délégation britannique n'engagent en rien l'avenir pour la Turquie".
Ibid.

It can thus be seen that the Lausanne Conference accomplished nothing concrete concerning the question of Mosul and the pre-war claims to its oil. At most it led to some public discussion and airing of the problem, although against this can be set the fact that it also led to much unpleasant intrigue, both at the Conference and elsewhere.

Britain's policy with regard to oil was not affected by the Conference. She failed to gain the advantages she sought - confirmation of Iraq's right to Mosul and confirmation of the Turkish Petroleum Company's right to Mosul's oil, but on the other hand she succeeded in holding on firmly to what advantages she already had.

Yet the Conference, even in the sphere of oil, accomplished more than mere maintenance of the status quo, for it at least helped to produce comparative tranquility in the Middle East after over seven years of war. Without this tranquility the already difficult negotiations concerning American entry into the Turkish Petroleum Company would have been almost impossible, for the Americans would have been loath to talk in concrete terms while the future of the whole area was beset with uncertainty. As it was, doubts about the future of Mosul tended to hamper the negotiations and to lead to various intrigues. Moreover, the settlement of Mosul by the League would itself not have been practicable before the Lausanne negotiations. The peace which the Lausanne Conference brought to the area was also important in enabling the Iraq-Turkish Petroleum Concession negotiations to

get under way, even though the area of the concession was still the subject of dispute -- and this in turn enabled some limited prospecting to begin in search of Iraq's as yet untapped oilfields.

CHAPTER 7

THE CONFIRMATION OF THE TURKISH PETROLEUM COMPANY'S CONCESSION 1925

As noted earlier, Britain had assumed the responsibilities of Mandatory for Iraq. Broadly speaking, these responsibilities entailed the protection of Iraq's political, strategic, economic and other interests until such time as Iraq became fully capable of protecting them herself. At the same time, Britain was to do everything possible to help the Iraqis to develop politically so as to be capable of running their own affairs without the need of the Mandatory's assistance - at which point the Mandate would end.

During the period following the signature of the Anglo-Iraqi Treaty of 1922, ^{1.}the Iraqis made considerable progress, and, ^{2.}aided by British advice, soon set up a viable system of government. While an Iraqi executive, relying heavily at first on the services of British Advisers, ran the day-to-day business, a Constituent Assembly met to discuss the framing of the fundamental laws for the new state, which had been drawn up on principles laid down in the 1922 Treaty. By 1924 an "Organic Law", establishing the main

1. See Chapter 3, above.

2. (Viable, though the kaleidoscopic nature of Iraqi politics soon led to frequent Cabinet changes etc.)

framework of the constitution, had been approved by the Assembly.^{1.}
 On its promulgation a full Parliamentary system of government
 would come into being.

British policy had steadfastly encouraged these developments.
 Despite what some writers have alleged, British advice was not
 always exclusively geared to British interests to the detriment
 of Iraq's. Obviously, British Advisers would inevitably have
 their own country's interests in mind when framing their advice,
 but, it must be stressed, in cases where this advice ran counter
 to Iraqi interests, or where the Iraqis felt that it did, the
 Iraqis were usually capable of resistance. The Iraqi Ministers
 were certainly not, as is sometimes alleged, mere puppets in the
 hands of the British.

All these points should be borne in mind when, in the
 following pages, the story of the Iraq-Turkish Petroleum Company
 negotiations is explained and analysed, particular attention being
 paid to consideration of how far Britain fulfilled her obligation
 to protect Iraq's interests in the oil question, and alternatively,
 how far Britain allowed her policies to be swayed by other
 considerations, including the wishes of the oil companies.

1. The most useful books on this topic are
 P.W. Ireland, Iraq (London 1937)
 S.H. Longrigg, Iraq 1900 to 1950 (London 1953)
 Also useful is H.A. Foster, The Making of Modern Iraq (London,
 1936).

I. Negotiations 1923-24.

The agreement in 1923 on American participation meant that the Turkish Petroleum Company could concentrate on consummating its pre-war claims and try to secure a definitive concession from the Iraq Government.^{1.} In September 1923, therefore, preliminary discussions between the Company and representatives of the Iraq Government began in London.^{2.}

The London discussions (which took place at the Colonial Office) were centred round a draft agreement, dated May 15th 1923, prepared by the Turkish Petroleum Company, the main features of which were that the Company was to get the exclusive right to oil development for a period of 99 years in the vilayets of Mosul, Baghdad and Basra, in return for a royalty to Iraq of four shillings per ton. Immediately the Iraqi representatives attacked the provision relating to the period of the concession, suggesting a drastic reduction. They were also unwilling to include Basra in

1. On November 8th 1923 the American State Department told the Standard Oil Company (New Jersey) that the Department was prepared to support the Turkish Petroleum Company's new concession in Iraq (subject to certain conditions). It took particular note of the fact that this concession was to be a new one, not the "alleged concession of 1914".
Secretary of State to the President of the Standard Oil Company of New Jersey (W.C. Teagle), November 8th 1923
F.R.U.S., 1923, II, pp.257-259.

2. Colonial Office and Petroleum Department representatives were also present.

the concession, and the Company, doubtless conscious of its weakness on this particular point, ^{1.} showed some willingness to concede it. Other points at issue concerned royalties, when a suggested sliding scale in relation to profits was discussed, and drilling obligations ^{2.} At the end of the preliminary discussions the Company was anxious to send a representative to Baghdad to continue, and if possible to conclude, the negotiations. The Colonial Office, however, made it quite clear that they must see any agreement arrived at before it was finally concluded. The British Government was determined to maintain its hold on the situation and thus be able to protect both its own and Iraq's interest in the matter. Furthermore, at this stage it was not the Government's policy to allow the final conclusion of the concession anyway until the Mosul issue was decided, although on this point there was some divergence of opinion between the Colonial Office and the Foreign Office. ^{3.}

The main Company - Iraq negotiations commenced in Baghdad, and continued into 1924. Meanwhile, a new factor had entered into the situation. In December 1923 the High Commissioner for Iraq, Sir H. Dobbs, had reported that a Mr. Cheney, who represented the interests of the Phoenix Oil Company (a company registered in London, with main interests in Rumanian oil^{4.}) had approached the Iraq Government with terms for a concession for his Company which were very favourable

1. Basra had not been included in the original promise of a concession by the Grand Vizier in 1914.
2. Minutes of Meetings at the Colonial Office, September 7th and 10th 1923 FO 371/8996/91/9448.
3. The Colonial Office wished to allow final signature of the concession before the final settlement of the boundary question, but the Foreign Office, worried about possible repercussions in Turkey, rigidly opposed this idea. Colonial Office to Dobbs (High Commissioner in Iraq) November 12th 1923 and Foreign Office Minutes, November 22nd and 23rd 1923 FO 371/8996/91/10969.
4. The Phoenix Oil and Transport Company registered in June 1920, had various production and refining interests in Rumania. It seems to have been fairly sound company, but the Board of Trade did not rate it very highly. Various details are given in W.R. Skinner, The Oil and Petroleum Manual (London, 1924) pp. 168-171.

to Iraq. "I fear that in view of the less favourable terms offered by the Turkish Petroleum Company this offer may prove dangerously^{1.} seductive to the Iraq Government", warned Dobbs.

The approaches to the Iraq Government of Mr. Cheney were supplemented by a violent anti-Turkish Petroleum Company press campaign^{2.} in Iraq which sought to sway popular opinion against that Company. It was feared in London that, despite the fact that Dobbs was using all his influence with the Iraq Government to prevent it from entertaining^{3.} Cheney's offers, the Iraq Government might nevertheless be tempted to sign an agreement with Cheney in order to ease its current pecuniary^{4.} embarrassment. This would indeed complicate the issue after all the patient and difficult international bargaining which had gone into constructing the still delicate framework of the Turkish Petroleum Company.

1. Dobbs (Baghdad) to Colonial Office, December 12th 1923
FO 371/8996/91/11847.

2. Amongst Cheney's charges was the allegation that the Anglo-Saxon Petroleum Company was 60% Jewish.
Cheney to Prime Minister of Iraq, January 21st 1924 (in Colonial Office to Foreign Office, February 15th 1923) FO 371/10082/13/1458.
See also Extract from Iraq Intelligence Report No.3 of February 7th 1924. FO 371/10109/1826/1826.

3. This applied as far as Mosul and Baghdad were concerned, but there was no particular objection to the Phoenix Oil Company applying for Basra, which was not covered by the Turkish Petroleum Company's pre-war claim.
(Memo by Secretariat of British High Commissioner, Iraq to Secretary of Council of Ministers, Iraq, January 24th 1924.
FO 371/10082/13/1458.

4. It was also feared that Iraq might be tempted to sign a concession with the T.P.C. without reference to London.

This fear of an early Cheney "coup" dominated discussions on policy among the British Government Departments in the early months of 1924, and led to an eventual decision to allow final signature of a concession by Iraq, should negotiations reach such a stage, even before a final settlement of the Turco-Iraq frontier question was reached. It was laid down, however, that in such a case the concession area should be defined as "Iraq except the transferred territories and the Basrah vilayet", and that no prospecting was to be done in disputed territory. ^{1.}

The Baghdad concession negotiations made very slow progress, and many suggested modifications of the original draft were under discussion. The Iraq Intelligence Report No 3 of February 7th 1924 described the Iraq Committee (that is, the Committee appointed by the Iraq Government to consider the oil question) as being "profoundly ignorant (and) exceedingly suspicious", afraid of responsibility and of public criticism, and as constantly seeking to gain apparently advantageous (if actually worthless) points ^{2.} to impress the public - which, of course, did not help to expedite matters.

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1. Memo by Osborne on the inter-Departmental Conference on Oil rights in Iraq, February 25th 1924. FO 371/10082/13/1721.
Foreign Office to Colonial Office, June 2nd 1924. FO 371/10084/13/4273.
 The formula "Iraq except the transferred territories and the Basrah vilayet" was felt to be necessary to avoid accusations that the British were in any way anticipating the League's decision on Mosul. It was also meant to avoid Turkish accusations that a concession was being awarded in territory over which Turkey claimed sovereignty.
Transferred territories: Under a Persian-Turkish frontier protocol of 1913 a small part of Persian territory was transferred to Turkey. Turkey promised to respect the rights of the A.P.O.C. there, since the territory had formed part of the 1901 D'Arcy Concession. This territory was now in Iraq, who in turn respected A.P.O.C. rights. (Map - p. 362).
 2. Extract from Iraq Intelligence Report No.3 of February 7th 1924.
FO 371/10109/1826/1826.
 (The description given seems rather biased and unfair)
 The Iraq Committee referred to was appointed by the Iraqi Cabinet to consider the concession proposals. It generally consisted of three Iraqi Ministers, and usually a British Adviser was present. (This information has been supplied by a private source).
 For accounts of the administration of Iraq at this time, with
 (continued on following page)

Negotiations eventually came to a halt in May 1924 with the departure from Baghdad of Keeling, the Turkish Petroleum Company's representative. The passing by the Iraq Constituent Assembly of the Organic Law, a measure which would deprive the Iraq Government of its executive power to grant the concession without reference to the Legislative Assembly (once the Law was approved by King Feisal),¹ then lent added urgency to the matter of getting the negotiations going again. The Colonial Office therefore telegraphed to Dobbs asking him to find out if the Iraq Government was ready to resume discussions with the Company.²

The draft concession at this stage showed that some measure of agreement over royalties had been reached before Keeling had left Iraq in May, and that the terms of the "Open Door" clause, insisted on by the Americans,³ had been modified somewhat, in an attempt to meet certain Iraqi objections.⁴ After scrutiny (during August) by various British Government Departments, the draft was at length pronounced by the Colonial Office to be "eminently reasonable and fair".⁵ Further negotiations on its terms then began at Baghdad.

(continued from preceding page)

reference to British Advisers etc., see:

P.W.Ireland, Iraq (London, 1937) pp.338-369.

S.H.Longrigg, Iraq 1900 to 1950 (London, 1953) pp.162-171.

1. The principles governing the Organic Law were laid down in Article III of the Anglo-Iraqi Treaty of October 1922. The Organic Law came before the Iraq Constituent Assembly in June 1924. (Ireland, *op.cit.*, p.381).
2. Colonial Office to Dobbs (Baghdad) July 11th 1924. FO 371/10085/13/6286.
3. See Chapter 3, above.
4. The royalty was now fixed at 4 shillings per ton. The "Open Door" clause had originally given the Company the right to sublet areas to "any person, firm or corporation irrespective of nationality" (my emphasis), but the Iraqis had objected to this, and had secured the deletion of these words from the clause. (Draft Concession enclosed in: T.P.C. to Colonial Office, July 16th 1924. FO 371/10084/13/6167.
5. Colonial Office to Dobbs (Baghdad) August 27th 1924. FO 371/10085/13/7501.

At this point the controversy between Gulbenkian and other Groups in the Turkish Petroleum Company over the Working Agreement blew up, resulting in some danger of an American withdrawal from the Company - with all the dire political consequences likely to follow from such withdrawal. This, together with further difficulties occurring in the Iraq-Company negotiations, and the appearance of another rival to the Turkish Petroleum Company, a certain Major Holmes, made the outlook for the Company rather dim. The only bright spot on the horizon was the prospect of diminished opposition from the Phoenix Oil interests, following reports of the imminent downfall of Cheney.

By October 10th the concession negotiations had reached an impasse, the Iraq Government and the Turkish Petroleum Company being at variance on several points and unable to make any progress. Dobbs was becoming

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1. Gulbenkian objected to the Working Agreement (by which participants received crude oil from the T.P.C., which was made a non-profit making concern) on the grounds that he wanted dividends, not oil, which he could not dispose of. The Americans, however, insisted on the Working Agreement in order to avoid double taxation. (See next chapter, below).
 2. Major Holmes applied for an oil concession, covering the whole of Iraq, on behalf of his company, the Eastern and General Syndicate. (F. Holmes to High Commissioner for Iraq, May 17th 1924.
FO 371/10084/13/6117.)
 3. Phoenix Oil Company directors were annoyed with Cheney for exceeding his instructions in applying for areas covered by T.P.C. claims. He had apparently been instructed to apply only for Basra. (Colonial Office to Dobbs (Baghdad) July 26th 1924. FO 371/10085/13/6527.
 4. Turkish Petroleum Company to Colonial Office, October 9th 1924. FO 371/10086/13/8774.

very concerned at the way things were going, and he laid the blame for the impasse at the Iraq Government's door:

The Turkish Petroleum Company has now gone to the utmost limits but Iraq Government continue to make excuses. There are grounds for suspecting that enormous bonuses have been offered to Feisal and others by Major Holmes acting on behalf of other interests including America.

1.

Dobbs then suggested that, if the Iraqis definitely refused to grant the concession, he should be instructed to tell them that His Majesty's Government considered the draft terms "eminently fair and reasonable" and that His Majesty's Government considered Iraq bound to give the Turkish Petroleum Company a concession by the terms of the Lausanne Treaty^{2.} and by Article X of the Anglo-Iraqi Treaty (under which Iraq accepted the terms of the San Remo Agreement)^{3.} Furthermore, suggested Dobbs, if Iraq did not agree, he should be authorised to tell Iraq that the British Government would go to arbitration under Article XVII

1. Dobbs (Baghdad) to Colonial Office, October 10th 1924.
FO 371/10086/13/9184.
2. Article 9 of the Concessions Protocol to the Treaty. This did not specifically refer to the Turkish Petroleum Company (as pointed out earlier) but it referred generally to contracts entered into before October 29th 1914. For the text see Parliamentary Papers (H of C) 1923 (Cmd 1929) xxv, 533. "Treaty of Peace with Turkey, and other instruments signed at Lausanne on July 24th 1923": Protocol relating to certain concessions granted in the Ottoman Empire (Article 9), page 209.
3. "The High Contracting Parties agree to conclude separate agreements to secure the execution of any treaties, agreements or understandings which His Britannic Majesty is under obligation to see carried out in respect of Iraq. His Majesty the King of Iraq undertakes to bring in any legislation necessary to ensure the execution of these agreements...." (Article X of the Anglo-Iraqi Treaty of October 1922. Text in Hurewitz, op. cit., pp. 112-113).

of the Anglo-Iraqi Treaty¹. or, alternatively, that Iraq should be told that His Majesty's Government:

cannot consent to concession for oil in vilayets of Mosul and Baghdad being given to any other applicant than the Turkish Petroleum Company and therefore the exploitation of oil resources of these two vilayets will be prohibited for the duration of the Anglo-Iraq Treaty to the great financial loss of Iraq who cannot expect His Majesty's Government to give her any financial assistance while she refuses to utilize her own resources. 2.

This was strong language - but these suggestions were by no means welcome to either the Colonial Office or the Foreign Office, which rejected them, both on general grounds and because it was felt best not to intervene in the negotiations directly if such intervention could possibly be avoided.

However, on November 13th 1924 the Colonial Office instructed Dobbs to remind the Iraq Government of the Turkish Petroleum Company's "undoubted right" to the concession if reasonable terms were offered. Various arguments were to be used with the Iraqis ³. (though none of such force as those earlier suggested by Dobbs), including the suggestion that:

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1. "Any difference that may arise between the High Contracting Parties as to the interpretation of the provisions of this Treaty shall be referred to the Permanent Court of International Justice provided for by Article 14 of the Covenant of the League of Nations..." (Article XVII of the Treaty).
 2. Dobbs (Baghdad) to Colonial Office, October 10th 1924.
FO 371/10086/13/9184.
 3. Dobbs was instructed to remind the Iraqis that long delay would ensue if the Organic Law were promulgated before the Concession was signed, which would delay Iraq's obtaining oil royalties. He was also to remind them that the Turkish Petroleum Company was the strongest combination of resources ever arranged for oil development.

Final settlement of Oil concession will greatly simplify task of pressing claim of Iraq as regards northern frontier: also attempts which are being made by competing interests to arrive at an understanding with the Turks will be defeated. 1.

As the Foreign Office noted, the rather specious Colonial Office argument about the frontier settlement not only was rather unsound logically but, as Osborne (Foreign Office) noted, it "smack(ed) ever so little of blackmail".²

Up to this point the British Government had tried hard to maintain its desired policy of non-intervention in the negotiations between Iraq and the Company. It had kept a watchful eye on the two sides, hoping that the many points at issue would be resolved without any need for direct interference. However, negotiations had dragged on, first in London, then in Baghdad, while new threats, in the shape of the Cheney intervention and the Gulbenkian controversy, had arisen. By late 1924, although the Cheney threat had by now receded, the prospects of an early agreement between Iraq and the Turkish Petroleum Company were not

1. Colonial Office to Dobbs (Baghdad) November 13th 1924.

FO 371/10086/13/10164.

The reference here is to Lord Inverforth's (and others') alleged intrigues, for which see next chapter.

2. The argument was unsound logically since the concession was held to exclude the disputed areas anyway.

Minute by Osborne, November 25th 1924.

Foreign Office to Colonial Office, December 3rd 1924.

FO 371/10086/13/10164.

(The Foreign Office had not been consulted before the Colonial Office telegram had been sent).

very bright. While the two sides were still at variance on a great many important points, the time was fast approaching when the promulgation of Iraq's Organic Law could no longer be delayed, and reference of any concession granted to the Iraq Legislative Assembly, with all the consequent opportunities for delay or even rejection, would then be unavoidable. It was obvious to the British Government that more direct efforts to speed negotiations would have to be made, even though such efforts would bring further problems in their train -- for example, if matters came to a crisis, whose interests would have to be sacrificed, those of the Turkish Petroleum Company, or those of Iraq?

II. British Government Intervention 1925.

Late in 1924 the impression in British Government circles was that Iraq was following an awkward line of its own in its concession negotiations with the Company with the express purpose of obstruction. This was not exactly the case, however, as Dobbs soon found out, for the two main points of difference between the two sides were, for Iraq, valid and important.^{1.}

Firstly, Iraq objected to Article 32 of the Draft Concession,

1. Though it must be admitted that at times Iraq did put forward excessive claims, such as, for example, a demand for reversion to her of property outside Iraq. See Minutes of Conference at Baghdad ... regarding T.P.C. Concession: Fourth Meeting, December 15th 1924, and Fifth Meeting, December 17th 1924. FO 371/10827/43/351.

which required that the operating company be registered in Britain. One can understand the Turkish Petroleum Company's point of view in insisting on this. It was also in line with British Government policy and was enshrined in the San Remo Oil Agreement. Nevertheless, one must also appreciate the Iraqis' point of view in that they feared that this provision might lead to the reintroduction of judicial capitulations and the growth of foreign influence on a great scale. On this point Dobbs asked if he could give Iraq some assurance.¹

Secondly, Iraq, bound by the terms of Article X of the Anglo-Iraqi Treaty to accept the San Remo Agreement, consequently felt that it had a right to avail itself of that Agreement's benefits in that Article 8 thereof provided for 20% Iraqi participation. Furthermore, Iraq wanted to have all the privileges attached to such participation, such as being able to appoint a director, and to secure a good profit from the undertaking. The Turkish Petroleum Company, however, resisted Iraq's claim, (at least partly because they feared consequent Iraqi interference) arguing that the operation of the Working Agreement, insisted on by the American Group,² meant that, in itself, the Turkish

1. Dobbs (Baghdad) to Colonial Office, November 20th 1924.
Dobbs (Baghdad) to Colonial Office, December 13th 1924.
 FO 371/10086/13/10165 and 11331.

2. To avoid double taxation. Here again the inclusion of American interests led to difficulties with Iraq (as with the "Open Door" clause). (Under the Working Agreement the T.P.C. was to be made a non-profit making concern, the participants receiving crude oil in proportion to their shareholding. See next chapter).

Petroleum Company would be a non-profit making organization, each component group getting its share of oil at cost price, and therefore Iraq would not benefit greatly from participation anyway. To this the Iraqis replied that, even without the profits, they wanted share participation in order to be able to appoint a director. Dobbs asked the Colonial Office for a decision on this point, but opined that the Iraq Government's claim was indisputable. ¹.

The Colonial Office reply urged the necessity of having the Turkish Petroleum Company registered in Britain so as to facilitate the subscription of the large amounts of capital required. ². As to capitulations, His Majesty's Government could not go beyond the assurances already given to Iraq, and in any case could not guarantee Iraq on this matter against other Powers, such as the United States. ³. On the question of Iraqi participation, the Colonial Office felt that it would be better for Iraq

1. Dobbs (Baghdad) to Colonial Office, November 20th 1924.
FO 371/10086/13/10165.

2. This argument was used at the time by the T.P.C., but in fact the Company's shares were never put on the open market, increased capital being drawn pro rata from the participants.

3. On the capitulations issue see Article IX of the Anglo-Iraq Treaty of October 1922, (Text, Hurewitz, op.cit. II, p.112) and the subsidiary Judicial Agreement (Parliamentary Papers, (H of C) Cmd 2120 (1924) xxvi, 453, pages 28-31). For references and summary of Anglo-Iraqi discussions since the Treaty see Minute by Morgan, December 18th 1924.
FO 371/10086/13/11331.

to drop its claim, since this would entail getting a reduced royalty; it was better for Iraq to accept "certain gains instead of speculative hopes", it was urged. ¹.

In general at this stage in the negotiations the differences between the two sides occurred largely because the Iraqis were, rightly, afraid of abuses of the concession terms (which, *prima facie*, seemed reasonable enough) and therefore they sought either to find a fresh basis for particular terms or to tighten the language used to make for more certain interpretation. (Possibly knowledge of the Persian concession disputes was a factor here ²). Often Keeling could appreciate the Iraqis' point of view and would be willing to compromise, but sometimes he was unable to do so because of being tied down by his Company's rigid refusal to move. ³.

By the end of January 1925 the draft concession showed that some progress had been made. The period of the concession had been fixed at 75 years, and agreement on the "Open Door" formula had been reached. ⁴. Keeling had apparently offered Iraq the right to

1. Colonial Office to Dobbs (Baghdad) December 18th 1924.
FO 371/10086/13/11490.

2. See Chapter 5 Part II(above) and Chapter 12 Part I (below).

3. T.P.C. officials, of course, had always to keep in mind the fact that the Company as a whole was composed of diverse international interests (actual or, as in the case of the Americans, potential). This must at times have reduced flexibility regarding certain points in the concession (e.g. the "Open Door" clause).

4. Dobbs(Baghdad) to Colonial Office, January 2nd 1925.
FO 371/10827/43/78.

Under the terms of the draft concession the T.P.C. was to choose 24 plots from the total area of the concession (by a given date), and the rest was to be sub-let to other concerns. The Company draft envisaged the T.P.C. itself appointing the sub-lessors, but Iraq, suspicious of the Company's intentions, stuck out against this. The Company eventually conceded to Iraq the right to appoint the sub-lessors.

appoint a director to the Board, as a counter to Iraq's demands for full participation, although this offer had not yet been taken up by Iraq. There were still, nevertheless, many points of difference to be settled.

Meanwhile a serious situation was beginning to develop. While both the Turkish Petroleum Company and the British High Commissioner, Dobbs, pressed urgently for final signature, in Iraq the Iraq Government was under constant attack from the opposition, who were redoubling their efforts to prevent the concession going through before Parliament met. At the same time the fact that the negotiations were so long drawn-out was leading to impatience among the groups and this, together with the still continuing Gulbenkian controversy, was imposing a

1. Draft Convention, January 1925. FO 371/10827/43/748.

2. Dobbs (Baghdad) to Colonial Office, February 17th 1925.
FO 371/10827/43/1020.

No attempt has been made here to determine the elements of opposition in Iraq to the Turkish Petroleum Company's concession - a task which would almost merit a thesis of its own.

Iraqi politics at this time were kaleidoscopic. Parties of a sort did exist, with various declared objectives, but they showed little facility for organization. Support of or opposition to a particular measure or government was determined more by personal allegiance, religious or racial affinity, local or tribal considerations, and the tactics of the "ins versus outs" struggle than by considerations of doctrine or party programme. Sentiments such as nationalism and aversion to British tutelage were present, however, and were presented as part of the "ideology" of certain of the parties.

On this see: S.H. Longrigg and F. Stoakes, Iraq (London, 1958) pp. 87-88. Longrigg, Iraq, 1900-1950, pp. 148-152. Ireland, op. cit., pp. 394-396.

3. See Chapter 8 (below).

severe strain on the fragile arrangements which held the Turkish
 1.
 Petroleum Company together.

One of the points still at issue was Iraq's demand that royalties
 2.
 be paid on a gold basis, which demand the Company was resisting.
 After discussions with Company representatives in London, the Colonial
 Office persuaded the Company to accede to Iraq's wishes on this
 matter. In informing Dobbs of this, L. Amery (Secretary of State
 for the Colonies) telegraphed:

Company have stipulated that there shall be no further amendments
 of (the January draft concession) and after perusing it I concur
 in their view that they have met Iraq handsomely on all counts

In Amery's view the draft was now exceptionally favourable to Iraq
 and he urged Dobbs to "impress this upon the Government of Iraq and
 3.
 make every endeavour to obtain signature at a very early date".

In Iraq, however, the clamour against the proposed grant of the
 concession before Parliament met continued. The Ministers of Works,
 Justice, and Education were threatening to resign if the Prime Minister
 pushed the concession through. It was now certain, felt Dobbs, that

1. Colonial Office to Dobbs (Baghdad), February 7th 1925.
 FO 371/10827/43/843.

2. Iraq feared that if the British Government followed a deliberate
 inflationary policy in order to ease the unemployment problem
 (as advocated by some people at the time) then sterling would
 depreciate, hence if Iraq's royalties were not tied to a gold
 value they would fall considerably in value.
 (According to a private source, Dobbs himself suggested to the
 Iraqis that they demand that royalties be on a gold basis).

3. Colonial Office to Dobbs (Baghdad), February 7th 1925.
 FO 371/10827/43/843.

the Prime Minister could not push the measure through and survive the pending elections, and he urged that the British Government take^{1.} "immediate and drastic action".

The main point at issue was the question of Iraq participating in the Turkish Petroleum Company, in accordance with the terms of the San Remo Oil Agreement. The Iraqi Prime Minister^{2.} had suggested to Dobbs that if a clause were added to the concession whereby this question was to be put to the Iraqi Parliament when it met, and participation then negotiated if Parliament so desired, then the concession could be signed immediately. Dobbs, however, had stated that it was useless to put such a suggestion forward to the Company, and he had used various arguments to sway the Prime Minister, including the threat that the British Government might withdraw all interest in Iraq, and that this might be followed by an immediate American demand for capitulations. He had especially emphasised the fact that the League of Nations Commission investigating the Mosul^{3.} frontier question was taking a particular interest in the negotiations. Paulis (the Belgian member of the Commission) had told the Iraqi Minister of Finance "that the first of the two parties to the frontier dispute to grant (the) oil concession to the Turkish Petroleum Company would get (the) Mosul vilayet". According to Dobbs, however, the recalcitrant Ministers were by no means dismayed by his arguments,

1. Dobbs (Baghdad) to Colonial Office, February 17th 1925.
FO 371/10827/43/1020.

2. Yasin Pasha, one of Iraq's more efficient and determined leaders in this period.

3. See Chapter 8, below.

and they apparently felt that, despite all, "Great Britain (would)
^{1.}
 pull them out of the hole".

Together with the rather amazing utterance of M. Paulis (if true), it appeared that the negotiations had now developed into a game of bluff and counter-bluff between the Company, supported by Dobbs, and the Iraqi Ministers. The Iraqi Ministers stood by their undoubted rights to participation (although they admitted Iraq's inability to find the necessary capital), and they evidently hoped all the time that the British Government would save the situation. On the other hand Dobbs, who had gone as far as he dared in his official capacity, now sought to induce his home government to join directly in the game. He urged the Colonial Office to send a strong message to the Iraqi Government in order to force it to put the concession through, and suggested, *inter alia*, that this message should include the threat to cancel the financial and defence talks then scheduled and to abandon the proposed financial commission to Iraq, along with a reference to
^{2.}
 Iraq's default on the Ottoman Debt installments. In this he was supported by King Feisal, who even offered to dismiss the Cabinet and appoint a new one to grant the concession - though this would have
^{3.}
 laid him open to much internal opposition.

1. Dobbs (Baghdad) to Colonial Office, February 17th 1925.
 FO 371/10827/43/1020.

2. The Iraq Council of Ministers had refused to pay the 30 lacs installment of the Ottoman Debt on the grounds that it would mean suspension of salaries and would "bring the machinery of administration to a standstill". (Ibid.)

3. Ibid.

The opposition pressure was mounting, and on February 18th the Prime Minister was forced to announce publicly that the Organic Law would be promulgated in two weeks and that elections would be rapidly proceeded with. Just how much of the opposition to the passing of the concession was actually due to a desire to secure Iraqi participation, and how much of it was directed against the grant of the concession itself (with or without participation) is difficult to determine. In addition, it is equally difficult to determine how much the Iraqi Prime Minister himself was secretly in collusion with his more recalcitrant Ministers, and, indeed, perhaps with some elements outside the Cabinet who were opposed to the concession. 1. Morgan expressed his doubts on this score in a Foreign Office Minute of February 19th when he wrote:

The Iraq Ministers have shown a genius for delaying the grant of a concession to the Turkish Petroleum Company. One might almost suspect that they had been "influenced" by Turkish or rival oil interests. 2.

Of importance at this stage was the personality of the High Commissioner, Dobbs. It might be argued that his firm attitude with the Iraqi Ministers was necessary if any progress at all was to be made on the concession problem - an argument that has much to be said for it. However, in the delicate situation of the time, Dobbs's aptness

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1. Dobbs (Baghdad) to Colonial Office, February 18th 1925
 (Teleg. No. 96) FO 371/10827/43/1020.
 See also Dobbs (Baghdad) to Colonial Office, February 26th 1925.
 FO 371/10827/43/1194.
 2. Minute by Morgan, February 19th 1925. FO 371/10827/43/1020.

to form and hold, and possibly seek to implement, his own strong ideas on how a situation ought to be handled, together with his tendency to resort too quickly to the "ultimatum" as a weapon, was liable to be a positive danger in the circumstances. "I wish that I knew more of Sir H. Dobbs", minuted Sir Austen Chamberlain, "What little I see fills me with anxious doubts."^{1.}

The inconsistencies in the whole situation were noted by Osborne.

He minuted:

It is regrettable that while we continue to proclaim our official disinterest in the oil of Mosul, one of the League Commissioners should inform the Minister of Finance that it is the crux of the question and that Sir H. Dobbs should threaten the Iraq Government with the withdrawal of all interest of His Majesty's Government in the country and with the hypothetical bogey of American capitulations if the concession is not granted. 2.

1. Minute by Austen Chamberlain, February 20th 1925.

FO 371/10827/43/1020.

(This minute was signed simply "A.C.", but it seems fairly certain that it was written by A. Chamberlain, the Foreign Secretary).

H.R.C. Dobbs (1871-1934) had been in service in India, Persia, and Afghanistan before the First World War. In 1915-16 he was Revenue Commissioner in Mesopotamia. He served as High Commissioner in Iraq 1923-29. P.W. Ireland refers to him as follows:-

"Versatile in talents, but essentially an administrator, he brought to the difficult period, 1923-29, when he served as High Commissioner to Iraq, a great capacity for realistic thinking, a highly developed sense of duty, and a deep loyalty to the Empire which dominated all his relations with the Arabs." (Ireland, Iraq, p. 85 note 2.).

2. Although, added Osborne, the Arab Government had "displayed almost intolerable perversity and procrastination in the negotiations". (Minute by Osborne, February 19th 1925.
FO 371/10827/43/1020.)

There was great reluctance in the British Government Departments to act on Dobbs' suggestion of sending a stern Note to Iraq. After sounding Turkish Petroleum Company officials further on the question, and finding them still adamant against Iraqi participation, the Colonial Office therefore brought the matter to the notice of the Cabinet, which discussed it on February 25th. ¹.

The Cabinet rejected any idea of sending the "ultimatum" suggested by Dobbs, and they were reluctant to ask King Feisal to dismiss his Ministers, although this latter suggestion was held to have possibilities as a last resort. ². It was decided again to approach the Turkish Petroleum Company and to endeavour to reach a compromise on the lines put forward earlier by the Iraqi Prime Minister, ³. while in the meantime a Cabinet Committee was to be appointed to study the whole question closely. ⁴.

1. Minute by Morgan, February 20th 1925. FO 371/10827/43/1020.
2. By this time the Iraqi elections had been postponed, (partly because of difficulties in preparation of electoral rolls, partly because Iraqi authorities considered it best to wait until the Frontier Commission had finished their investigations in Iraq), and the Iraqi Prime Minister had managed to explain away his earlier statement regarding promulgation of the Organic Law (Dobbs (Baghdad) to Colonial Office, February 26th 1925. (Telegs. 112 and 113). FO 371/10827/43/1194.
3. Colonial Office to Dobbs (Baghdad) February 25th 1925. FO 371/10827/43/1183.
The compromise referred to is the Iraq Prime Minister's suggestion outlined above, page 233.
4. Cabinet Minutes, February 25th 1925. CAB 23/49. 10(25)27.

On February 27th the Company considered and rejected the Iraqi Prime Minister's suggested compromise, on the grounds that Iraqi participation would result in "the whole fabric of the Turkish Petroleum Company being torn to pieces". The Company then again urged the Colonial Office to continue pressure on Iraq to sign.^{1.} The day afterwards, however, the Cabinet Committee concluded its deliberations and came to a firm decision. Instead of putting pressure on Iraq, the British Government was to put pressure on the Company to accept a compromise arrangement which would give Iraq a definite share allotment (under certain conditions^{2.}).

On February 28th the President of the Board of Trade (Sir P. Cunliffe Lister^{3.}) and the Secretary of State for the

1. The main reason given for the Company's refusal was that in their view the Working Agreement, insisted on by the Americans, left no room for Iraqi participation.
Turkish Petroleum Company (H.E. Nichols) to Colonial Office (L. Amery), February 26th 1925. FO 371/10827/43/1240.
2. Report, Proceedings and Memo of Cabinet Committee on Petroleum Policy in Iraq: Conclusions, February 27th 1925. CAB 27/268. P.I. (25) 1.
(For the conditions, see below).
3. Sir Philip Cunliffe - Lister had earlier (before November 1924) been known as Sir Philip Lloyd Graeme.

Colonies (L. Amery) had an interview with H.E. Nichols, the Managing Director of the Turkish Petroleum Company, at which Nichols was informed that the British Government was definitely not prepared either to press for the dismissal of the Iraqi Cabinet or to present an ultimatum to that Government, and Amery then put forward two alternative proposals, one of which was the original compromise proposal of the Iraqi Prime Minister. The second proposal was that the Iraq Government be given free, fully paid-up shares in the Company amounting to 20% of the total issued capital, these shares to rank equal to Ordinary shares as regards dividend, but to carry no voting rights. Dividends payable were to be deducted from Iraq's royalties.^{1.}

1. The proposed shares would not give Iraq the right to intervene in the general management of the Company, and could only be disposed of to members of the Company. Memorandum on "Iraq: Turkish Petroleum Company" by the Secretary of State for the Colonies, March 18th 1925
CAB 24/172. CP.171.
See also Colonial Office (Amery) to Turkish Petroleum Company (Nichols) March 2nd 1925.
FO 371/10827/43/1290.

Four days later the Turkish Petroleum Company reluctantly decided to accept the second proposal, provided that measures were taken to safeguard the Working Agreement.¹ British Government pressure, at last applied to the right quarter - for after all, Iraq's right to participate under the San Remo Oil Agreement was indisputable,² and the British Government, as Mandatory, was supposed to protect Iraq's interests³ - had secured what looked like being a breakthrough. Yet it was already too late, as will be seen.

At this time the League Frontier Commission in Iraq was giving the British Government much to puzzle over by its enquiries of the Iraq Government as to whether that Government recognized the Turkish Petroleum Company's claim as valid, and "whether especially in view

1. The Company proposed that a contract be drawn up whereby the Iraq Government would agree to accept the Working Agreement. (Turkish Petroleum Company (H.E. Nichols) to Colonial Office (L. Amery) March 4th 1925. FO 371/10827/43/1350).
2. Article 8 of the San Remo Oil Agreement of April 1920 read (extract):- "...should the private petroleum company be constituted...the native Government or other native interests shall be allowed, if they so desire, to participate up to a maximum of 20 per cent of the share capital of the said company". Text in:- F.R.U.S., 1920, II, pp. 655-658. Morgan (F.O.) tentatively suggested that Article 8 could be suppressed, without Iraq's consent, but this step was not considered seriously and was, of course, outside the realms of practical politics at this stage. (Minute by Morgan (February 1925 (?).) FO 371/10827/43/1240.)
3. (Even though the point was mainly one of prestige at this stage, and of no real financial benefit to Iraq (as it was then envisaged)).

of Company combining international oil interests there is prospect^{1.}
 of Concession being granted by Iraq Government in near future". In
 addition, Count Teleki (the Hungarian member of the Commission) had
 offered to use his good offices to persuade the Iraq Government to^{2.}
 sign the Concession.

Dobbs felt that this "strange anxiety shown by the Frontier
 Commission to induce Iraq to sign" might be explained by the fact that
 the Commission possibly was considering proposals which would give the
 whole of Mosul to Turkey or, alternatively, would divide Mosul in^{3.}
 two between Iraq and Turkey. Knowing that this would be opposed by
 the powerful oil interests, and would thus be unlikely to secure^{4.}
 acceptance by the League, the Commission was trying to get both
 Iraq and Turkey to recognize the Turkish Petroleum Company's claim

1. Dobbs (Baghdad) to Colonial Office, February 26th 1925.
 FO 371/10827/43/1194.
 See also: Great Britain, Public Record Office, Colonial Office,
Memo of a Conversation between H. Dobbs and Colonel Paulis,
January 23rd 1925. CO 730/72. No. 6291.
2. Dobbs (Baghdad) to Colonial Office, March 2nd 1925.
 FO 371/10827/43/1312.
 British Government officials were not very keen on this idea,
 however. See various minutes in FO 371/10827/43/1312 and 1350.
3. The Commission did actually consider partitioning the Mosul
 vilayet, but rejected the idea, according to their report, in
 the interests of the population.
 (Parliamentary Papers (H of C) 1924-5 (Cmd 2565) ~~xxx~~i, 563. "Report
 by M. Unden on the question of the Turco-Iraq Frontier, December
 16th 1925", page 7.)
4. Since the oil interests of Britain, France and Holland would
 influence their Governments against acceptance.
 The United States might also, from outside the League, raise her
 voice against partition. (Assuming that the oil companies had
 sufficient influence with their governments to make them act in
 this way).

(and if Iraq signed the concession, this would be one hurdle cleared) so that the powerful oil interests would not oppose the Commission's
1.
recommendation.

It thus appeared, Morgan minuted on March 6th, that the League Commission was not convinced by the British Government's statements that its interest in retaining as much as possible of Iraq arose from other reasons than oil, and it apparently felt that Britain's main interest in Mosul was to secure the oil concession there for the Turkish Petroleum Company. If Iraq refused to meet the wishes of the oil interests, then perhaps the Commission would feel bound to award Mosul to Turkey, who had promised to meet their wishes - however
2.
worthless the Turks' promises were considered to be by Britain.

When Dobbs later reported his views on the possibility of League Commission proposals being made to give the right bank of the Tigris to Iraq and the left to Turkey, with the suggestion that the Commission's motive in wishing to get Iraq to grant the Concession was thus to avoid

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1. (Since the concession would cover the vilayets of Mosul and Baghdad irrespective of frontiers, on this reasoning).
Dobbs (Baghdad) to Colonial Office, March 2nd 1925.
FO 371/10827/43/1312.
Dobbs suggested the inclusion of a clause in the proposed Concession which would nullify the Concession grant if the whole of Mosul were not given to Iraq. In Dobbs's opinion this would ensure French and American support for Britain in the frontier question.
 2. Minute by Morgan, March 6th 1925. FO 371/10827/43/1312.
See also Tyrrell (F.O.) to Shuckburgh (Colonial Office)
March 9th 1925. FO 371/10827/43/1350.
(Morgan had occupied various minor posts in Turkey. He was employed in the F.O. from April 1923).

Iraqi opposition to pipelines from the Turkish part of the Concession going through Iraqi territory (and thus again to avoid opposition

1.
from the oil interests), Morgan minuted in disgust:

The Commission seems to treat as unimportant the strategic question, the question of the Christian and other minorities, the rights of the Arabs and of the Kurds, and the fact that the vilayet is ours by right of conquest. 2.

There was no doubt some foundation for British suspicions of the League Frontier Commission's activities, although the question was hardly likely to be as "black and white" as the Foreign Office seemed to think. Doubtless the Commission was concerned to look at all angles of the problem, and it was obviously useless to ignore hard facts and to propose some solution which it knew would be doomed from the start. It would be, one hopes, unthinkable for the Commission to have ignored "the question of the Christian and other minorities, the rights of the Arabs and the Kurds", and obviously, too, the strategic question had to be given some consideration. Foreign Office officials, rightly suspicious, perhaps tended to exaggerate the degree to which oil interests dominated any situation even remotely connected with oil - but in this they were not alone, as contemporary, and later, literature shows. 3.

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1. Dobbs to Amery, March 8th 1925 (Private and Personal; Teleg No.133)
FO 371/10827/43/1430.
 2. Minute by Morgan, March 11th 1925. FO 371/10827/43/1430.
 3. See for example Davenport and Cooke, op. cit.; Brooks, op. cit.; and Ludwell Denny, We Fight for Oil (New York and London, 1928). Also, of course, the newspapers.

The Turkish Petroleum Company representative in Iraq, Keeling, did not immediately put forward the approved proposal to give Iraq 20% participation without voting rights, but held it back temporarily. Before he could make the offer, however, the Iraq Council passed a formal resolution authorising the signature of the concession, subject to the settlement of certain minor points still outstanding, but without insisting on Iraq's right to participation. This break in the impasse was reported by Dobbs on March 7th, and he informed the Colonial Office that this authorisation had been obtained at the cost of the resignation of the Ministers of Education and of Justice, who might now mount a further campaign against the concession. Dobbs urged that the Company be pressed to give way on the outstanding minor points (nine in all), otherwise the opportunity of immediate signature^{1.} might be lost and never recur.

Eventually, after the Colonial Office had persuaded the Company not to stick out against Iraq on one final point (concerning an Iraq^{2.} Government option to acquire a local refinery), on March 14th 1925^{3.} the concession was signed.

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1. Dobbs (Baghdad) to Colonial Office, March 7th 1925. FO 371/10827/43/1421. It is not clear exactly what factors induced the Iraq Council to drop its insistence on participation.
 2. Dobbs (Baghdad) to Colonial Office, March 12th 1925, and Shuckburgh (Colonial Office) to Payne (Board of Trade), March 13th 1925. FO 371/10827/43/1552.
 3. The Organic Law came into operation on March 21st 1925, seven days after signature of the Concession. Submission of the Concession to the Iraq Parliament for approval was therefore not necessary. (The British desire to avoid reference to the Iraq Parliament, though easy to understand, is a curious comment on their much professed love of democracy!).

1.

The final text of the Concession gave the Turkish Petroleum Company the exclusive right (subject to the "Open Door" clause) to obtain and export oil in an area defined as "Iraq except the Transferred Territories and the region formerly the vilayet of Basrah", with provision for a supplementary Convention, to be concluded once the precise limits of Iraq had been determined. The period of the concession

2.

was fixed at 75 years. Article 5 required the Company to select, within 32 months, 24 rectangular plots of 8 square miles each, and laid down certain drilling obligations. The Company was to order a pipeline for export from these areas "as soon as it shall be commercially justifiable", or within four years of declaring the areas fully tested. Article 6, the "Open Door" clause, provided for the auction of the area left, after the Company had selected its plots, to the highest bidder. For this purpose the Company, which was to receive the proceeds of the auction, was to act as the agent of the Iraq Government, the latter having the right to refuse permission for any lease of plots to a bidder of which it did not approve.

The Iraq Government's royalty was fixed at four shillings (gold) per ton for twenty years after export commenced, and thereafter

1. The final text of the Concession may be found in
FO 371/10828/43/2760.

Also in Hurewitz, op. cit., Vol. II, pp.132-142.

2. Articles 1 and 3 of the Concession.

3. Article 2.

royalties were to be calculated on a sliding scale according to profits.^{1.}
 Article 15 fixed the price of oil sold locally in Iraq, and allowed Iraq to acquire her own refinery, while Article 16 gave Iraq the right to inspect Company property, though this ~~and~~ only applied to property inside Iraq. Article 20 laid down the conditions under which^{2.}
 railways for Company use might be constructed.

The Iraqis had accepted the provision that the operating Company^{3.}
 be British, but had secured the right to appoint a director to the^{4.}
 Board. Article 34 provided that, in any new issue of shares offered to the general public, Iraqis would be allowed to subscribe to a limit of 20% of such shares - a clause which was, in the event, of little^{5.}
 value, even if pleasing to Iraqi public opinion. Other clauses concerned taxes, import duties, the employment of Iraqis, termination of the Agreement, arbitration etc.

1. Article 10.
2. Outside the 24 plots (chosen under Article 5) the Company was to construct only narrow gauge (not exceeding two feet six inches) railways, unless authorised to construct broader gauge lines by the Iraq Government.
3. Article 32.
4. Article 35. The Iraq Director was to "enjoy the same rights and privileges" etc. as the other Directors.
5. New subscriptions of capital were always taken up by the participants, and thus shares were never offered to the general public.

By the standards of the time the Concession agreement was not grossly unfair to Iraq, and it was in some respects an advance on the other major concession in the Middle East at this time, the D'Arcy^{1.} Concession. The greatest injustice to Iraq was, of course, the denial of a proper share in the profits of the enterprise which full participation might have secured. After all, Iraq had a right to this under the San Remo Oil Agreement, even apart from any other considerations. While one can appreciate the difficulties of the Turkish Petroleum Company as regards giving Iraq a full 20% participation, in that that Company was already composed of too many different elements all having to "share one pie", one cannot escape the truth that the "pie", after all, belonged to Iraq.

The question naturally arises as to whether Britain ought to have done more to secure Iraq's interests, especially since, in so doing,^{2.} she was to some extent securing her own. The British Government,

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1. Both concessions covered a huge area, and were for a long period (the D'Arcy Concession was for sixty years). The Iraq concession of 1925 did not have the provision whereby the Government took 16% of the profits, which in Persia led to endless trouble because of (primarily) loose drafting allowing abuse. Iraq had a royalty on output (on a gold basis) instead. Neither concession gave the host government much profit (compared with the company's profit, and with present day arrangements). The Iraq concession, however, was an advance on the D'Arcy Concession because it was drafted far more tightly, imposing definite obligations on the operating company.

For various points of comparison see H. Cattani, The Evolution of Oil Concessions in the Middle East and North Africa, (New York, 1967).

2. In the financial sphere, revenue accruing to Iraq from oil development would help to pay for the administration of the country; profits accruing to the Turkish Petroleum Company participants went mainly into foreign (American, French, Dutch) pockets.

judging naturally by the standards of 1924-25, held the draft concession put forward by the Company (after some modification) to be "eminently reasonable and fair." To castigate the British Government for this opinion now, from the standpoint of nearly half a century later, would perhaps be a little unfair, but one cannot escape the fact that it allowed its supposed protégé Iraq to be robbed of what it undoubtedly had a right to - share participation in its fullest sense, without unfair deduction from royalties.

On the other points, too, the British Government did not make any great effort to protect Iraq. True, it refused to support the Company's early claim to include Basra in the concession, and occasionally used its influence to persuade the Company to accept certain minor points desired by the Iraqis, but whatever important benefits the Iraqis did secure were secured mainly by their own efforts.^{1.} Of course, British policy was avowedly one of the avoidance of direct intervention in the negotiations, a policy to some extent inevitable in view of the international complications involved, but on the occasions when Britain departed from this policy in Iraq's interest it was, with one exception, only on comparatively minor issues. The one exception - concerning Iraqi participation in the Company - hardly merits description as such, since the British Government's intervention with the Company on that issue was carried out only because there seemed no feasible

1. (The assistance of the British Advisers to the Iraq Government was no doubt invaluable to the Iraqis on more technical points).

alternative, and in any case was, as it happened, already too late to be of help to Iraq. The British Government's fears of repercussions from American interests and possible disruption of the Turkish Petroleum Company, along with fears of what might happen in the Mosul issue should Iraq refuse to grant the concession, perhaps made the British lean (even if unconsciously) a little towards favouring the Company's interests, but while these may be reasons, they cannot truly be called excuses for the British attitude.

The influence of the High Commissioner, Dobbs, who in the early stages of the negotiations had little patience with Iraqi pretensions, was probably an important factor helping to determine the British Government's attitude, as possibly was the fact that the basis of the negotiations was, after all, a draft prepared by the Company. This latter fact often made it appear that it was the Iraqis who were forever creating difficulties by objecting to the Company's draft terms, thus causing British officials to see the Iraqi Ministers as being purely obstructive and "exceedingly suspicious". Had the Iraqis themselves been sufficiently knowledgeable to have put forward their own draft - or, perhaps, had they been able to take a leaf out of the Persians' book in the North Persian concession struggle ¹. - then the British Government would no doubt have

1. When the Persians took drafts submitted by different oil companies, picked the best terms from each, and then drew up a new draft, asking oil companies concerned to accept it. See Chapter 5 (above).

found that the Turkish Petroleum Company, too, could be "exceedingly suspicious" and liable continually to raise fresh issues in the negotiations.

On balance it can fairly be said that, while the British Government's policy helped to speed the negotiations a little, and probably prevented a complete breakdown in that neither the Company nor Iraq could guarantee that it would have British Government support for any unreasonable stand, nevertheless the British Government's attempt to be impartial and to stand aloof from the negotiations militated more against Iraq's interests than against those of the Company.

CHAPTER 8

MOSUL AND THE GULBENKIAN CONTROVERSYI. Mosul and Gulbenkian

The Lausanne Treaty of July 1923 had provided for maintenance of the status quo in the Iraq-Turkey frontier question while Britain and Turkey negotiated a final settlement. If such settlement were not reached within nine months from the signature of the Treaty, the matter was to be referred to the League Council. ^{1.}

The British Government did not especially want to let the matter go to League arbitration, and would have preferred to settle matters with the Turks directly, although for such direct settlement some substantial territorial concessions to the Turks would have had to be made, on a scale which the British Government was not prepared to countenance. ^{2.}

The already firm determination of the British Government to cede only minor areas of Iraq to the Turks needed no added strengthening from considerations of oil potentialities, ^{3.} but had

1. Parliamentary Papers (H of C) 1923 (Cmd 1929), xxv, 533, "Treaty of Peace with Turkey, and other instruments signed at Lausanne on July 24th 1923", Article 3 (2), page 15.

2. The British Government preferred a direct settlement because the outcome of League arbitration was uncertain, and would entail much delay. For an illustration of the limits to which the British were prepared to compromise ("without restoring Mosul town to Turkey or compromising its strategic position".) See Secretary of State for Colonial Affairs to the High Commissioner for Iraq (Baghdad) September 20th 1923.
FO 371/9006/1019/9537.

3. See Chapter 6, pp. 199-200 (above).

it done so it would have received that extra support from the information contained in a map which the Turkish Petroleum Company was at pains to supply to the Government indicating that most of the likely oilfields in Iraq were to be found in Mosul.^{1.}

The direct Anglo-Turkish frontier negotiations at Constantinople between May 19th and June 9th 1924 yielded no result except to make even plainer the "wide and irreconcilable divergence" between the two sides.^{2.} Consequently, on August 6th Britain asked that the League Council place the dispute on its agenda, following which request the Council, after hearing both points of view, decided to institute an enquiry, and appointed a three-man Commission for the purpose on September 30th 1924.^{3.}

The Turks, however, still continued to express a desire for a direct settlement, and during October the Turkish Minister in London approached the British Prime Minister (Ramsay MacDonald) with suggestions for a settlement of the Mosul question to

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1. The map referred to is not now in the British Government files, but a Foreign Office minute, written after consulting the map, states: "As the Turks will probably claim the district embracing Mosul, Khanikin and Suleimanie they will, if they succeed, leave practically no oilfields in Iraq" (Minute by Morgan, August 20th 1923. FO 371/8995/91/8369.)
 2. Memorandum by the Secretary of State for Foreign Affairs on Turkish Proposals for a direct settlement of the Turco-Irak Frontier Question, April 2nd 1925. FO 371/10862/175/1727.
 3. Parliamentary Papers (H of C) 1924-5 (Cmd 2565) xxxi, 563. "Report by Mr. Uden on the Question of the Turco-Irak Frontier, December 16th 1925", pp.2-3.

Turkey's advantage, in return for Turkey giving various commercial privileges and advantages to Britain.¹ Possibly the Turks (in common with many people in Britain) had expected the First Labour Government to follow a policy markedly different from that of the Conservatives, but in this they were disappointed. Nothing came of the Turkish approach, and it is unlikely that even had MacDonald not fallen from power immediately afterwards any progress would have been made.²

The League Commission was busy collecting information concerning the Mosul dispute. Besides examining relevant documents and discussing matters with the British and Turkish Governments, the Commission also visited the disputed territory and made various enquiries there, incidentally, as has been seen, revealing a more than passing interest in the oil question. On September 3rd 1925 the Commission made its Report to the League, recommending that, subject to certain conditions, the Mosul vilayet be retained as part of Iraq. Thereafter the Anglo-Turkish dispute centred on the question of the legal nature of the Council's expected decision on the Report's recommendations,

1. MacDonald to Lindsay (Constantinople) October 31st 1924.
FO 371/10080/7/9561.

2. MacDonald addressed a query to the Foreign Office as to how far the British Government was committed to supporting the T.P.C. In reply the Foreign Office stated H.M.G.'s commitment to be only "the inherent obligation to continue the support afforded to the Company in the past, in the absence of any good cause for refusing it" - but at the same time the commitments to France and the United States were stressed as important (Minute by Osborne, November 4th 1924. FO 371/10080/7/9561).

Britain contending that the decision would be binding, Turkey contending that it would be merely a recommendation.^{1.}

While all this was happening, and the Mosul dispute remained thus unsettled, controversy was raging between Gulbenkian on the one hand, and the groups within the Turkish Petroleum Company and the American Group seeking entry, on the other. This controversy, although at first sight of a purely commercial nature -- albeit complicated by personal animosities^{2.}-- eventually led to the involvement of the British, American, and the French Governments.

The British Government first became aware of the controversy on September 23rd 1924, when Nichols (of the Turkish Petroleum Company) called at the Foreign Office with the request that His Majesty's Government "threaten (Gulbenkian) with their displeasure unless he became amenable to the representations of Nichols and Teagle".^{3.} According to Nichols, Gulbenkian had recently

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1. Parliamentary Papers (H of C) 1924-5 (Cmd 2565) xxxi, 563. "Report by Mr. Unden on the Question of the Turco-Irak Frontier, December 16th 1925". (The Commission of Enquiry rejected the idea of partitioning Mosul, and held that economic and geographical considerations, together with the wishes of the majority of the people of the area, made the inclusion of Mosul in Iraq the most satisfactory solution of the problem - provided that certain conditions were met (for which see later pages of this chapter)).
 2. Between Gulbenkian and Deterding over the latter's policy concerning a certain Venezuelan Oil Company. For details see N.S.Gulbenkian, Pantaraxia (London, 1965) pp.122-24, 133-38, and R. Hewins, Mr. Five Per Cent (London, 1957) pp.160-63.
 3. Memo by Morgan, September 23rd 1924. FO 371/10085/13/8473.

put forward "impossible demands" for his concurrence in the terms of the Working Agreement and of the draft concession then being sought from Iraq. Gulbenkian disliked the Working Agreement because under it he received only a share of oil (which he himself had not the facilities to dispose of)^{1.} instead of dividends, and he objected to the "Open Door" formula in the draft concession because it meant that the Company itself only worked a small area of the concession instead of the whole area, which meant a consequent diminution of his profits.^{2.} However, Gulbenkian was prepared, Nichols said, to agree to the "Open Door" terms if the Company would grant him a royalty of one shilling per ton on all oil produced, an arrangement which the Company was not prepared to accept.^{3.}

On later being asked for his side of the story, Gulbenkian had several valid points to make. Referring to the "Open Door" leasing arrangement, Gulbenkian pointed out that there was nothing to prevent the Groups from getting all the territory

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1. The Turkish Petroleum Company was to be a non-profit making organisation, the participants receiving their share of oil from the Company.
 2. Under the "Open Door" formula the Company only worked 24 plots, the rest being thrown open to public auction.
 3. This would work out, it was calculated at that time, at £100,000 p.a. for Gulbenkian.

outside the Company's 24 plots, even though the Company itself was barred from bidding - thereby rendering chimerical any idea of there being a real "Open Door" to all comers. ¹. As for the Working Agreement, it was a "fraud" in which the profits were "artificially kept at a nominal figure, and the real profit escape(d) tax". On this latter point, however, Gulbenkian's grievance was, really, that he himself was unable to share in this "fraud". ².

Both the British and the United States Governments were loath to intervene, particularly since Gulbenkian had a strong legal case on which to base his attitude, and preferred to let

1. The Groups in the Company would have obvious advantages against outsiders, in that they would have access to the Company's information on the value of plots offered and, furthermore, since the proceeds of the auctions went to the Company, some at least of the money paid for any plot bought at the auction came back indirectly to the buyer.

Gulbenkian's assessment of the Groups' motives (the American's in particular) was reasonably accurate, as can be seen from the remarks of G. Wellman (Standard Oil (New Jersey)) to A.W. Dulles (State Department) (F.R.U.S., 1924, II, p.225.)

2. Gulbenkian feared that he would have to sell his oil to the Groups at a very low price, since he himself could not market it.
(Gulbenkian to Tyrrell, September 27th 1924 (and enclosures)).
 FO 371/10085/13/8475.

the two sides sort the matter out themselves. ^{1.} The controversy dragged on, however. In October 1925 the American Groups presented Gulbenkian with a memorandum outlining certain terms, ^{2.} adding that

it was the unanimous decision of the American group that the above terms set forth are final ... (and) ... the American group realized that a failure to settle with Gulbenkian w(ould) mean the withdrawal of the American group from the proposed association with the Turkish Petroleum Company. ^{3.}

The Foreign Office, having been informed of the situation, was seriously concerned at the way things were going. While it was reluctant to believe that the Americans really did contemplate withdrawal from the Turkish Petroleum Company, ^{4.}

1. Foreign Office to E. Howard (Washington) October 10th 1924.
FO 371/10085/13/8475.

The Turkish Petroleum Company offered Gulbenkian various alternatives at this time. See:- Messrs. Linklaters and Paines (T.P.C. Solicitors) to Messrs. Freshfields, Leese and Munns (Gulbenkian's Solicitors) September 26th 1924.
FO 371/10085/13/8475.

2. The main terms outlined were that Gulbenkian would sell his T.P.C. shares to the Anglo-Saxon and Anglo-Persian Oil Companies for £8,000, and receive a royalty of one shilling per ton on all the oil produced by the T.P.C. Gulbenkian was to be a director of the T.P.C., with access to the accounts.

3. Memo submitted by Mr. Montagu Piesse, on behalf of the American Groups, to the other Groups as the result of his conference with the American Group in New York on 6th October 1925.
FO 371/10828/43/6989.

4. See various Foreign Office minutes in FO 371/10828/43/6762, 6989, and 7000.

nevertheless the possibility could not be ignored in view of the delicate state of the Mosul question, still a waiting League decision, and in view of certain other items of information which came to hand, particularly those concerning the alleged machinations of Lord Inverforth and others.¹ In order, therefore, fully to understand the problem which the Gulbenkian controversy posed to the British Government, it will be necessary to look closely at the various negotiations and intrigues which were proceeding at this time, all of which were related to the Mosul question.

II. Intrigues and Other Complications

While the question of whether Mosul should go to Iraq or to Turkey remained undecided, various attempts to influence the decision were made by several parties. Some of these attempts were direct approaches by Turkish officials to the British Government, with mainly territorial and political considerations in mind, others were more subtle intrigues engaged in by persons whose main concern seemed to be to gain access to the supposed rich oilfields of the disputed area.

1. See below, Section II.

In March 1925, for example, the Turks made an attempt to settle the Mosul question by putting various proposals for a settlement to the British Foreign Office. These proposals, which envisaged (inter alia) the cession to Turkey of two-thirds of the Mosul vilayet, in return for which the Mosul oil concession would be given to a group nominated by the British Government, were politely but firmly turned down by the British Government, however. ¹.

Italy seemed at this time to be a doubtful supporter of Britain over the Mosul question. Nothing had been heard from the Italians on the subject of Iraq oil since, at Lausanne, Curzon had promised the Marquis Garroni a share of oil once the Mosul question was settled. ². When, on October 30th 1925, the Italian Volta Agency contradicted earlier Italian press statements that Britain had promised Italy a share in Mosul oil, the Foreign Office saw in this evidence that the Italian Government was uncertain about what the League's decision on Mosul would be and, in the Foreign Office view, the Italians were therefore "toadying to Turkey" in the hope of securing

1. Memorandum by the Secretary of State for Foreign Affairs on Turkish Proposals for a direct settlement of the Turco-Irak Frontier Question April 2nd 1925. FO 371/10862/175/1727.

2. See Chapter 6 (above).

benefits should Turkey regain Mosul. There was, however, a bright side to this - the Foreign Office now felt itself relieved from the burden of trying to fulfil Curzon's vague promise, although the matter had been, in any case, very much in abeyance.^{1.}

With regard to actual intrigues, secret M.I.5 reports in September 1925 on the activities of a Mr. Bennet, acting for the former Sultan's heirs, suggested that Bennet was involved in intrigues with Turkish officials and had approached M. Briand, France's representative at the League of Nations, asking him to use his influence to prevent the Mosul decision from going against Turkey.^{2.} Bennet's efforts alone, however, can hardly have had much hope of success.

Potentially more serious than either Bennet's attempts to seduce the French or Italy's doubtful wooing of Turkey were the activities of the Inverforth Group,^{3.} which was reported to be endeavouring to intrigue not only with Turkey but with elements in the United States

1. R. Graham (Rome) to Foreign Office, October 30th 1925 (and Foreign Office Minutes) FO 371/10828/43/6704.

No doubt the Italians had long despaired of getting a share in Iraq oil, but it does not seem likely that their rapprochement with Turkey - if such it was - can have been very far reaching, in view of later Italo-Turkish tension (See below).

2. M.I.5 Secret Reports on Bennet, September 7th and September 10th 1925. FO 371/10828/43/5489 and 5652.

3. Lord Inverforth (Andrew Weir): President of Andrew Weir Shipping and Trading Company Limited. He also had several other business interests. Surveyor General of Supply at the War Office, 1917-1919; Minister of Munitions January 1919 - March 1921.

Admiral Wester Wemyss was also a prominent member of the group. He had been First Sea Lord 1917-1919. (Biography: The Life and Letters of Lord Wester Wemyss, by Lady Wester Wemyss (London, 1935)).

Other (alleged) members of the group included Lord Beaverbrook (see below), Sir G. Armstrong (a naval officer), and a certain Mr. J.H. Thomas. (whether or not this was the J.H. Thomas who was Colonial Secretary in 1924 is not clear).

and in France, in addition to stirring up popular opinion in Britain. The aim of this group appeared to be to obtain the oil concession in Mosul and, as this was impossible if Mosul remained as part of Iraq, the group therefore sought to use its influence to secure the cession of Mosul to Turkey.

Firm evidence relating to any intrigue is, by the very nature of that intrigue, difficult to obtain. The evidence in the Foreign Office files, while not conclusive regarding the direct complicity of certain individuals alleged to have been involved, is nevertheless conclusive on the question of whether or not some group or syndicate was involved in approaches to the Turks and to the French on the subject of obtaining the oil concession should Mosul revert to Turkey. It is certain that such approaches were made. The evidence relating to alleged approaches to American interests, however, is not wholly conclusive.

Possibly the least assailable item of evidence in this question is referred to in a letter from E. Phipps to L. Oliphant, dated November 6th 1925, in which Phipps mentions an occasion on which M. Berthelot had read to him a private letter which he had received from M. Fleuriau, the French Ambassador in London. According to
1.
Fleuriau's letter, Lord Wester Wemyss had called on the French Ambassador to tell him of the formation of a Syndicate, headed by Lord

1. See previous note.

Inverforth, for the working of an oil concession to be granted by Turkey in the event of Mosul reverting to that country. Wemyss informed Fleuriau that 25% of the shares would be allotted to France^{1.} in accordance with the San Remo provisions.

While this letter undoubtedly shows that a Syndicate, with which Lord Wester Wemyss and Lord Inverforth were associated, was formed to work Mosul oil should Mosul revert to Turkey, and that the Syndicate sought French support, it does not prove that the Syndicate either was negotiating with the Turks or was actively seeking to secure the cession of Mosul to Turkey by means of influence either in France or elsewhere. Nevertheless, one may wonder, is it possible to believe that such a Syndicate could be formed in order passively to await the League decision on Mosul, on which decision depended the very *raison d'être* of the Syndicate, without doing more than merely clearing the ground of obvious obstacles, such as by offering the French 25% to avoid their opposition? Could such a Syndicate refrain from making approaches to the Turks and, following those approaches, could such a Syndicate have totally ignored the inevitable Turkish rejoinder that even a tentative promise to consider the Syndicate's application after the League decision was contingent on the Syndicate's prior support

1. E. Phipps (Paris) to Oliphant (F.O.) November 6th 1925.
FO 371/10828/43/6845 (Phipps was British Minister Plenipotentiary in Paris).

and efforts to secure a decision favourable to Turkey? Although it certainly is true that Lord Inverforth, allegedly the head of the Syndicate, assured the British Foreign Secretary (in December 1925) that

neither directly nor indirectly, by himself or by others, had he entered into any negotiations or conversations in regard to a new concession for oil in Mosul with French, Americans or Turks, 1.

nevertheless it seems difficult to believe that the answer to these questions can be other than in the negative. 2.

Some of the more disturbing reports which came into the Foreign Office concerned the reported contacts between American interests and the Inverforth Group, viewed as being all the more dangerous by the Foreign Office in view of the current Gulbenkian controversy. Although evidence for these contacts is admittedly rather weak, in view of Wester Wemyss's approach to Fleuriat mentioned above it seems only reasonable to assume that the Syndicate Wemyss referred to would also "clear the ground" with the Americans, and perhaps would even try to inveigle the Americans into the plan to secure Mosul for Turkey.³

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1. Record of Lord Inverforth's interview with Sir Austen Chamberlain, December 3rd 1925. FO 371/10829/43/7522.
 2. It must here be noted, however, that the present Lord Inverforth states that his father did not have any interest in Mosul oil. (Private letter from Lord Inverforth to the writer, October 19th 1970).
 3. A letter from the Standard Oil Company (N.J.) to Mr. Dulles, of the State Department, seems to indicate that the Inverforth Group did make approaches to Standard Oil Company (N.J.) representatives some time in 1925 (Standard Oil Company (N.J.) to Dulles, State Dept., December 8th 1925. U.S. National Archives, Microfilm M722/25 No.0298, page 3.)

Gulbenkian himself added to the Foreign Office's worries about the alleged intrigues of the Inverforth group by reporting to them certain rumours about the Group's involvement with various persons in French political circles ^{1.} as well as with certain well known British personages. ^{2.} According to Gulbenkian, the group had plans for mounting a political campaign on both sides of the Channel, and had offered to the Turks the bargain: "We will give you Mosul and you give us the oilfields". ^{3.} While it can be argued that Gulbenkian's motives in retailing such

1. Including, it was alleged, M. Boncour, who was at that time France's representative at the League of Nations.
2. Including, it was alleged, Lord Beaverbrook - though it should be noted that Beaverbrook denied any connection with the Group.
3. Memo by Gulbenkian on the Mosul Question (n.d.)
FO 371/10829/43/7521.

rumours might have been suspect, ^{1.} Gulbenkian's statements do lend credence to the belief that some group was at work aiming to thwart British policy and to secure the cession of Mosul to the Turks in return for benefits to themselves. Furthermore, later Turkish official sources confirm this belief, and seem to indicate that it was the private company which made the first approaches to the Turkish Government, not vice versa. ^{2.}

The British Government's reaction to these various reports and rumours was, of course, highly unfavourable, and it is important to note that official opinion was by no means sceptical of the reports and the possible danger which their contents revealed. ^{3.}

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1. (Since Gulbenkian no doubt wished to demonstrate to the British Government the urgency of the need to put pressure on the T.P.C. Groups to reach a settlement with him).
 2. Item published by the "Agence Anatole" February 22nd 1926. Lindsay (Constantinople) to Foreign Office, February 23rd 1926 FO 371/11459/62/1390.
 3. See Minute by Osborne, November 10th 1925 and Minute by Tyrrell, November 11th 1925.
FO 371/10828/43/6845.
Also, A. Chamberlain to Amery, November 4th 1925.
FO 800/258 page 646.

However, disturbing as the reports were in themselves, their importance in the context of Anglo-American oil relations was enhanced by their possible relevance to the American threat to withdraw from the Turkish Petroleum Company over the Gulbenkian controversy, notwithstanding British scepticism as to the reality of this American threat. "I understand that the real background to the American move is again Lord Inverforth, who wants to substitute himself for the Turkish Petroleum Company with the assistance of Angora", minuted Tyrrell on November 14th 1925, referring to reports of Inverforth's approaches to
1.
the Standard Oil Company.

It has been necessary to go rather deeply into the alleged Inverforth intrigues to show their relationship not only to the Mosul question but also to the Gulbenkian controversy. As has been seen, these intrigues were liable to affect Anglo-American and Anglo-French (not to mention Anglo-Iraqi and Anglo-Turkish) relations to some degree. It must now further be shown that the Gulbenkian controversy itself, even irrespective of the Inverforth intrigues and irrespective of the threatened American withdrawal, cannot be viewed in isolation; it was interwoven (and as time went on tended to become more so) with the whole question of Anglo-French oil relations.

Late in August 1925 the French Government began, simultaneously
2.
with a Belgian démarche, another attempt to enhance its claims to

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1. Minute by Tyrrell, November 14th 1925. FO 371/10828/43/7004.
 2. M. Le Tellier (Belgian Counsellor) to Mr. Spring Rice (F.O.)
September 3rd 1925 FO 371/10828/43/5311.
(See FO 371/10828/43/5701 for Foreign Office reply).

Iraqi oil - an attempt which the Foreign Office regarded as a piece of attempted blackmail while the Mosul decision was still hanging fire.¹ The French claimed the right, under the San Remo Agreement, to participate in any concession granted for the Basra vilayet (along with certain other claims) and supported this by various contentions. Even after the Foreign Office had refused to entertain these claims they continued to press the point, sending a further note in November.²

In dealing with these French demands the Foreign Office at first viewed the matter as entirely isolated from the dispute between Gulbenkian and the Groups. It only became clear, six months after the first French démarche, that there was possibly a link between the French demands for participation in Basra and the demands which Gulbenkian had earlier put forward for, inter alia, a share in the proceeds of the development of Basra should the Turkish Petroleum Company secure the concession for the vilayet. Foreign Office officials were aware of Gulbenkian's close relations with the French Government on Middle East questions,³ but, somewhat surprisingly in view of their

1. Minute by Morgan, September 25th 1925. FO 371/10828/43/5701.

2. The French claim was based on the fact that Article 7 of the San Remo Oil Agreement referred to "the Mesopotamian oilfields", which could be held to include Basra.
Note left by M. Fleuriau at the Foreign Office, August 29th 1925.
 FO 371/10828/43/5224.
French Ambassador to Foreign Office, November 21st 1925.
 FO 371/10829/43/7229.

3. The French Government even suggested that Gulbenkian be appointed as Chairman of the Turkish Petroleum Company.
(Minute by Tyrrell, June 29th 1925. FO 371/10828/43/3863.)

usually suspicious attitude towards all things French, they did not connect the two things (Gulbenkian's demands and the French diplomatic approach over Basra) until March 1926.¹

This close relationship between Gulbenkian and the French Government was perhaps of some benefit to the British Government whilst the Mosul question remained undecided, as Gulbenkian used his influence to keep the French wedded to the Turkish Petroleum Company and away from any flirtations with the Inverforth Group. After the Mosul decision, however, when the Inverforth Group had lost its initial *raison d'etre*, the relationship ceased to be of benefit to Britain, and it assumed a different aspect entirely, as will be seen later.

During the period up to the League decision on Mosul, it has been seen that British oil policy had had to contend with various complicating factors. Apart from direct approaches by Turkish Government representatives, the possibility of Italian gains should Mosul revert to Turkey, and intrigues on behalf of the Sultan's heirs, there was evidence of a potentially dangerous attempt by the (so-called) Inverforth Group to oust the Turkish Petroleum Company from Mosul and its oil. Any one of these attempts might, had it succeeded, have shattered the Turkish Petroleum Company, the support of which was a cardinal

1. See below.

point in Britain's oil policy.

The Turkish Petroleum Company itself was by no means in an unassailable position. True, it was granted a concession covering Mosul and Baghdad in March 1925, but this would not have been of much use had the whole of Mosul been later awarded to Turkey. Moreover, the very existence of the Company as it had been painstakingly built up was threatened by the Gulbenkian controversy. The Americans, insisting on certain conditions being fulfilled before they formally became members of the Company, would at any time have broken away had they felt that their prospects of gaining a larger share of Mosul oil would be better served by doing so.¹ The British government's oil policy would thus have suffered a major defeat, and it might well have then faced problems even more difficult than it had faced in the period 1919-21, when it had had to cast about for ways of placating both French and American interests at the same time that it secured its own. Physical possession of Mosul had

1. A very interesting summary of the American Group's reasons for not breaking away from the T.P.C. at this juncture is given in a memorandum (drawn up a week before the League decision on Mosul was announced) by a Standard Oil Company official, C.P. Stuart Morgan. Morgan argued that if Mosul were awarded to Turkey, Britain would ensure that the T.P.C.'s concession rights were guaranteed first; and even if this were not the case, no company could rely on the Turks anyway, because of their untrustworthiness and the general chaotic conditions in the area.
See: Enclosure in Swain (Std. Oil Company) to Dulles (State Department) December 16th 1925 in U.S. National Archives Microfilm M722/25. No.0312-0314.

then been of primary importance -- but it could not be guaranteed that even such a hold as Britain still retained in 1924-25 would be maintained after the League had made its decision on the future of the province.

For these reasons, then, British oil policy went through a trying period of nervousness and anxiety during the period 1924-25. It was not until December 1925 that many (but not all) of the doubts and uncertainties were removed, when the League finally announced its decision on Mosul.

III. The Mosul Decision

The League of Nations decision on the Mosul dispute, announced on December 16th 1925, awarded Mosul to Iraq, provided certain conditions were met by Iraq and Great Britain (as

Mandatory). ^{1.} In addition to fulfilling the League's conditions, however, it was necessary, in the interests of peace, and with a view to reducing some of Britain's expensive burden of defending Iraq, to conclude a treaty with disgruntled Turkey and thereby finally settle the question of Iraq's northern frontier. ^{2.}

Among the points considered in framing the instructions to be given to R.C. Lindsay, ^{3.} who was to negotiate the treaty with the Turks,

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1. Great Britain was to conclude a new treaty with Iraq which was to last for twenty-five years unless Iraq was admitted to the League before the expiry of that period. This was meant to ensure the continuance of responsible government in Iraq.
Parliamentary Papers (H of C) 1924-5 (Cmd 2562) xxxi, 549.
"League of Nations: Decision Relating to the Turco-Irak frontier adopted by the Council of the League of Nations, Geneva, December 16th 1925".
 2. Iraq and Great Britain concluded a treaty to comply with the League decision on January 13th 1926. This was accepted by the League, and in March the decision on Mosul was declared to be definitive (Shwadrán, op.cit., p.232).
 3. H.M. Ambassador to Turkey, resident at Constantinople.

was the question of His Majesty's Government using its "good offices" to secure for Turkey some participation in the Turkish Petroleum Company's concession. Apart from the obvious difficulty of getting the jealous Groups to give up any of their shares to the Turks, any suggestion that the Turks should have a share in Iraq's oil royalties was likely to raise a storm of protest in Baghdad, particularly since Iraq had herself reluctantly agreed to waive her right to participate in the Company. When the Cabinet considered these alternatives on March 3rd 1926, therefore, the difficulties involved were seen to be very considerable. However, it was ruled that "if essential to a settlement", the British Government would consider either alternative.

The negotiations in Angora began in earnest in April 1926, and soon, after being bogged down on the question of the territorial concessions demanded by Turkey, they "took a surprising turn" when the Turks ceased to insist on territorial concessions but instead asked for some share participation in the Turkish Petroleum Company. However, despite its earlier decision to consider the problem of Turkish participation, the British Government now felt that it was useless to approach the Turkish Petroleum Company on this point, but

1. Cabinet Minutes, March 3rd 1926. CAB 23/52. 9(26)3.
See also Minute by Spring Rice, April 23rd 1926.
FO 371/11461/62/2574.

2. See D.B.F.P., Series 1A, Vol. I, pp. 828-831.

3. Lindsay (Angora) to Chamberlain, April 21st 1926, in D.B.F.P. Series 1A, Vol. I, pp. 832-834.
Turkey's internal difficulties, and fear of Italian menaces (see below), were believed to be factors behind this "surprising turn".

instead gave consideration to a number of alternatives, including a suggestion to give a portion of Iraq's royalties to Turkey, which
 1.
 it was hoped might satisfy the Turks.

While subsequent delays in obtaining Iraqi consent to these proposals ensued, causing the British Government some anxiety in case
 2.
 the opportunity of a settlement with the Turks was lost, the Angora negotiations then took "another surprising turn". Lindsay reported on May 7th that the Turks were only interested in securing participation in order immediately to turn it into cash, and he suggested that possibly £300,000 to £500,000 would satisfy the Turks on this score. Thus, it seemed, a settlement on the basis of royalties, not participation, without reference to American or French interests (since only Iraq was the loser) later to be turned into a lump cash sum, would
 3.
 serve the purpose.

1. Other alternatives included a proposal that the Turkish Petroleum Company's concession might be extended into Turkey, with Turkey getting royalties in proportion to the area granted. Another proposal concerned assistance to Turkish railways.
Colonial Office to Acting High Commissioner for Iraq, April 27th 1926. FO 371/11461/62/2681.
2. While King Feisal was agreeable to the proposal to give Turkey a share in Iraq's royalties, the Iraqi Prime Minister anticipated difficulties in getting agreement in the Cabinet and Parliament, and preferred to consider the railway proposals.
(Acting High Commissioner for Iraq to Colonial Office, April 30th 1926 and Dobbs (High Commissioner for Iraq) to Colonial Office, May 1st 1926. FO 371/11461/62/2736 and 2763.
3. Lindsay (Angora) to Chamberlain, May 7th 1926, in D.B.F.P., Series 1A, Vol. I, pp. 841-2.

After some discussions on the question of how much of the cost of satisfying Turkey should be borne by the British Government and how much by Iraq,^{1.} Lindsay was authorised to offer the Turks a sum up to £500,000, or, alternatively, a percentage of Iraq's royalties, on condition that immediate settlement would be reached without cession of territory.^{2.}

On May 21st Lindsay offered the Turkish Minister for Foreign Affairs the sum of £500,000 which, however, the latter regarded as "entirely inadequate".^{3.} While the British Government was considering the question of increasing the offer to £775,000 (as Lindsay now suggested) the Turks asked Lindsay what the British Government and Iraq would offer by way of royalties. Lindsay's immediate offer of 10% of Iraq's royalties, for a period of twenty five years, was accepted on May 30th by the Turks, who later secured the option to capitalize for £500,000 within one year. On June 5th, therefore, a Treaty between Britain, Iraq, and Turkey was signed, and the Mosul dispute was finally resolved.^{4.}

1. See minutes etc. in FO 371/11462/62/2860, 2894 and 2957.

2. Chamberlain to Lindsay (Angora), May 17th 1926, in D.B.F.P., Series 1A, Vol. I, pp. 842-3.

3. Lindsay (Angora) to Chamberlain, May 21st 1926 (Teleg. No. 25), in D.B.F.P., Series 1A, Vol. I, pp. 843-844.
Lindsay (Angora) to Chamberlain, May 21st 1926 (Teleg. No. 31) FO 371/11462/62/3140.

4. Lindsay (Angora) to Chamberlain, May 23rd 1926, (and F.O. Minutes). FO 371/11462/62/3146.
Lindsay (Angora) to Chamberlain, May 30th 1926, and June 4th 1926, in D.B.F.P., Series 1A, Vol. I, pp. 844-845.
 The text of the Frontier Treaty of June 5th 1925, between the United Kingdom, Iraq, and Turkey, may be found in Hurewitz, op.cit., Vol. II, pp. 143-146.

In the diplomatic "poker game" over Mosul the Turks had undoubtedly been worsted. The resurgence of nationalism after the war had prevented any partition of Turkey itself, and at Lausanne the Turks had bargained as equals, not as a defeated nation on whom terms could be imposed. On the Mosul issue, however, the Turks had commanded neither the diplomatic prestige nor the economic power to secure much international support for their by no means indisputable claims, and thus, inevitably as it now seems, Mosul had finally to be given up.

It is here contended that oil was by no means a deciding factor^{1.} for either side. If no oil had been suspected to be present in Mosul, the dispute between Britain and Iraq on the one hand, and Turkey on the other, would still have occurred and, while no doubt in that case it would have been surrounded by much less intrigue and propaganda, the dispute would still in all probability have run the same course and have had the same result. It could possibly be argued that the League Commission of Enquiry might have been more

1. This writer is inclined to agree with the views expressed in the Survey of International Affairs, 1925, Volume I at page 529. Referring to contemporary charges that oil was the main British motive in the Mosul dispute, the Survey rightly points out that "little positive evidence...appears to have been brought forward in support of this view". As for the fact that Curzon and others "protested too much", the Survey states: "it is probable that such protestations were at any rate less remote from the truth than the accusations which evoked them". Moreover, continues the Survey, the British Government's reaction to Turkish approaches in March 1925 (see this chapter) "substantially vindicates their diplomacy from the charge of being tainted with oil".

(It has not been considered relevant in this thesis to examine in depth the relative merits of the whole Mosul issue, which would require close scrutiny of, for example, the ethnic, geographical and other arguments put forward by the disputants.)

inclined to favour a partition of the vilayet between Iraq and Turkey had the problem of the Turkish Petroleum Company's concession, with all its international complications, not been a stumbling block to
 1.
 such a suggestion - but, in this writer's opinion, this argument is a weak one.

With Mosul safely secured for Iraq, Britain was prepared to offer Turkey some crumbs from her table to appease the disgruntled loser. It is not of great significance that these "crumbs" took the form of oil royalties. This was purely a device, because "for face-saving purposes an unknown quantity with an oily glamour to it was better
 2.
 than cash" - particularly when that "unknown quantity" could readily
 3.
 be turned into cash.

The Russian press referred to the final Treaty of June 1926 as
 4.
 a British "highway robber's triumph". While not exactly apposite, this description has some elements of truth, in that by the Treaty Turkey lost all hopes of territorial gains, and secured only a small cash sum in exchange. However, Turkey was induced to drop her demands for territorial concessions because of, as it appears, two things - her own internal financial disorder, and Italian menaces (over issues

1. See Chapter 7 (above).

2. Words of Turkish Minister for Foreign Affairs to Lindsay.
Lindsay (Angora) to Chamberlain, June 6th 1926. FO 371/11463/62/3621.

3. The Turks had secured an option to obtain £500,000 in cash instead of royalties. It is curious, however, that the Turks did not immediately take up this option, in view of their current financial needs. As late as November 1938 the option had still not been exercised, although Turkey was then giving it some consideration in connection with urgent rearmament and industrial development plans. (see FO 371/21923/67/5176 and 7083).

4. See FO 371/11464/62/3939.

not connected with the Mosul question).¹ Furthermore, Turkey failed to take advantage of current disorder in Britain during the coal crisis,² and her Ministers were very much out-boxed by the British negotiator, Lindsay. Had the Turks but known it, they could have secured better financial terms for their final signature of the Treaty,³ although even this would not have prevented the resurgence of internal opposition at Turkey's diplomatic "defeat" in losing the whole of Mosul.⁴

The conclusion of the Mosul dispute marked the end of the post-war territorial complications in the Iraq oil question. Now that that question was out of the way, the development of Iraq's oil potential could proceed - but this was to be by no means straightforward.

1. See Lindsay (Angora) to Chamberlain, April 24th 1926
FO 371/11461/62/2772.
Lindsay (Angora) to Chamberlain, May 12th 1926 (paragraph 6).
FO 371/11462/62/3019.
Chamberlain to Lindsay (Angora), April 24th 1926, in
D.B.F.P., Series 1A, Vol. I, p.837.
R. Graham (Rome) to Chamberlain, June 11th 1926 and
Foreign Office Minutes FO 371/11463/62/3641.
2. Lindsay (Angora) to Oliphant, April 30th 1926.
FO 371/11461/62/2788.
3. Lindsay was authorised to offer up to £775,000 on May 26th 1926, but the Turks did not press him beyond £500,000 at this point (although they had originally asked for very much more than this).
(Foreign Office to Lindsay, (Angora) May 26th 1926.
FO 371/11462/62/3146. (See also FO 371/11462/62/3140).)
4. Lindsay (Angora) to Foreign Office, June 16th 1926.
FO 371/11464/62/3770.

CHAPTER 9

THE RED LINE AGREEMENTI. Gulbenkian and Anglo-French Differences

At the beginning of 1926 the several groups concerned with the development of Iraq's as yet untapped oil resources were still wrestling with the problem of how to incorporate the American Group into the Turkish Petroleum Company. The points ostensibly at issue in the continuing Gulbenkian dispute were as follows: Firstly, Gulbenkian claimed royalties not only on the Turkish Petroleum Company's 24 plots, but also on the other areas in the Mosul and Baghdad vilayets, whether operated by the main Company or independently by one of the constituent Groups. This claim was disputed by the Company.¹ Secondly, Gulbenkian claimed benefits in Basra if the Company obtained the concession. While Cadman had drawn up a draft on December 23rd 1925 which conceded this point, the Americans had not yet accepted it, and, in the Foreign Office

1. However, on December 23rd 1925 Cadman had offered Gulbenkian a 2% royalty on outside areas, providing that he contributed 5% of the capital. (Memo by H.E. Nichols: Synopsis of the Negotiations for American participations in the Turkish Petroleum Company, December 24th 1925.
FO 371/10829/43/8197.

view, Gulbenkian had no right to such benefits. Thirdly, Gulbenkian claimed benefits from concessions in any other territory outside Iraq which the Company might acquire. All the groups rejected this claim, and the Foreign Office agreed that Gulbenkian had no valid claim on this point.^{1.}

However, in looking at the Gulbenkian controversy in this way, certain vital issues are ignored. Until the end of 1925 the issue as seen by the Foreign Office was one of reaching a financial settlement between Gulbenkian and the Groups, and the points in the dispute were regarded as being largely financial, with Gulbenkian seeking to maximise his claims and the Groups on the other hand trying to keep them within as tight limits as possible. This view of the dispute was possibly a valid one initially, but as the long drawn out controversy had progressed, and as it had become apparent just how much of a block Gulbenkian could be to the Groups' (especially the American Group's) plans, the purely financial issue had become of secondary importance, and the Groups then had begun to see as the major issue the question of how much control Gulbenkian would be allowed to retain over the Company's actions. No doubt the financial considerations involved were substantial but, as Osborne minuted on January 4th 1926, what the Groups, "and perhaps particularly the Americans, want to avoid is the retention by Mr. Gulbenkian of the legal right as a shareholder to restrain the Company's policy." While

1. Ibid. (See Foreign Office comments at the side of this document).

Gulbenkian would want the Company to erect refineries and become a competitor in its own right in the oil market, the Groups did not, and, Osborne continued, "If this is so, it is by no means purely a question of satisfying Mr. Gulbenkian financially but of depriving him of control over the policy of the Company".^{1.}

Some attempt to get the dispute resolved by arbitration was made towards the end of 1925, but in view of the American Group's unwillingness to take part in any such arbitration, this attempt held little prospect of success. The American Group made it clear that they stood by the terms of their memorandum of October 6th.^{2.}

Gulbenkian had disputed the Groups' contention that they were "not obliged to respect the terms of the 1914 Foreign

1. Minute by Osborne, January 4th 1926.
FO 371/10829/43/8198.

2. See previous Chapter for the memorandum of October 6th 1925. The American Group could not enter into arbitration with Gulbenkian, it was held, because the U.S. State Department did not recognize that Gulbenkian had any rights.
(F.R.U.S., 1926, II, pp.363-364.)

Office Agreement which precluded them dealing in territories in Mesopotamia outside the Turkish Petroleum Company".^{1.}

In Gulbenkian's opinion, the Foreign Office Agreement was not only still valid and applicable, but, indeed, "constitute(d) the vital point of the Company's existence".^{2.} The

French Government was soon also to invoke the pre-war Agreement as having some relevance still. On the other hand, the United States did not recognize as valid any Turkish Petroleum Company arrangements prior to the 1925 Concession.

In between these two extremes were the Anglo-Persian and the Shell Groups, which were both prepared to ignore the Agreement of necessity. The Foreign Office's attitude, although at this time they did not fully appreciate the point in the discussions, was that, whereas

1. Gulbenkian to Tyrrell, December 10th 1925.
FO 371/10829/43/7726.

2. Ibid.

the Grand Vizier's letter of June 28th 1914 had been valid, it was by no means certain that the 1914 Foreign Office Agreement had not lapsed^{1.} after the outbreak of hostilities. Each party, including Gulbenkian, the Groups, and the Governments concerned, took the view which was felt to be most to its advantage, which, in view of the difficult legal problem posed by the issue, was easily possible. Soon this question was to dominate the discussions.

With the Americans unwilling to go to arbitration there was little point in the other Groups doing so, and they themselves were not particularly enamoured with the idea.^{2.} The only way out was therefore to continue to search for an acceptable compromise, a procedure which was not helped by the growing animosity between Gulbenkian and Deterding over the unrelated matter in Venezuela.^{3.}

Meanwhile, the Foreign Office had still not answered the French note of November 21st 1925 which claimed a share in any oil development carried out by any company in Basra.^{4.} On March 24th 1926 an inter-Departmental Conference met to discuss the matter, when it was decided to tell the French that their claim could not be entertained, unless the Turkish Petroleum Company itself obtained the concession for Basra.

1. See Foreign Office Minutes, December 15th-17th 1925.
FO 371/10829/43/7726.

2. See various letters, minutes etc. of around this time, under the following references:- FO 371/10829/43/8198. FO 371/11455/27/27, 144, 278, 496. Also F.R.U.S., 1926, II, p.366.

3. See above, p.254, footnote 2.

4. See above, p.267.

This decision was implemented in an official note to the French Ambassador, dated April 14th 1926.^{1.}

On March 26th, however, the French had already made another approach to the Foreign Office, and as a result the extreme closeness of the relations between Gulbenkian and the Quai d'Orsay at last became apparent. The French note of March 26th began by stressing France's continuing desire for American participation in the Turkish Petroleum Company, and then went on to suggest that the upholding^{2.} of the pre-war agreements (1912 and 1914)^{3.} by which participants in that Company undertook not to be interested in territories of the Turkish Empire except through the Turkish Petroleum Company itself, would be sufficient to give Gulbenkian all the guarantees he sought, without him demanding other rights. The note then urged the British Government to advise the groups accordingly, and, by implication, intimated that the French Government considered itself bound by the^{4.} pre-war agreements. Morgan minuted in the Foreign Office files:

It is clear that the note is inspired by Mr. Gulbenkian, for it embodies his ideas and supports his views... (it also)

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1. Memo by Morgan, March 25th 1926. FO 371/11455/27/1040.
Chamberlain to Fleuriau, April 14th 1926. FO 371/11455/27/2244.
 2. The 1912 Agreement referred to was that concluded on the original formation of the Turkish Petroleum Company. The 1914 Agreement was of course that of March 19th 1914 (Foreign Office). ~~See~~ Introduction.
 3. French Ambassador to Foreign Office, March 26th 1926. FO 371/11455/27/2041.
 4. Morgan had occupied various minor posts in Turkey and the Middle East before being employed in the Foreign Office from April 1923. (capacity not stated in Foreign Office List).

throws some light on a recent French demand for participation in oil development in Basra vilayet. 1.

As a few days after receiving the French note there seemed some prospect of definite agreement between the Groups and Gulbenkian, however, the Foreign Office made no reply to this latest French démarche. 2. Later, after further French approaches on the subject, 3. the Foreign Office carried out an exhaustive search into their files to examine the various points raised, and ended by categorically rejecting the French thesis that the pre-war agreements were still valid and legally binding. All the survived the war, the British maintained, was the Grand Vizier's promise. 4.

It should be noted that the influence which Gulbenkian had with the French Government was particularly potent by virtue of the fact that France's interests in Turkish Petroleum Company

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1. Minute by Morgan, March 30th 1926. FO 371/11455/27/2041.
 2. The Groups and Gulbenkian concluded a tentative Agreement on March 31st 1926, but later attempts to frame the principles agreed into a definitive legal contract led to difficulties and the eventual abandonment of the tentative Agreement. (For the details of the Agreement see the signed copy at FO 371/11455/27/3027).
 3. Berthelot to Tyrrell, September 14th 1926. FO 371/11456/27/5404.
Berthelot to Tyrrell, January 17th 1927. FO 371/12263/104/304.
 4. Tyrrell to Berthelot, January 20th 1927. FO 371/12263/104/342.
See also Minute by Morgan, October 2nd 1926. FO 371/11456/27/5404.
and Minute by Malkin, January 29th 1927. FO 371/12263/104/342.

oil were in some respects similar to those of Gulbenkian. Both would benefit if the old Agreements, with their self-denying provisions, were resurrected and declared binding, since neither had facilities to operate areas independently. The larger the area the Turkish Petroleum Company itself controlled and operated (as opposed to independent component groups) the more could France and Gulbenkian take advantage of the drilling, operating and other facilities at the disposal of their partners.

The question of self-denying provisions in the pre-war agreements came up at a Turkish Petroleum Company Board Meeting on February 16th 1927, when, following the Board's refusal to take action against the Anglo-Saxon Petroleum Company regarding activity in Farsan, ^{1.} the French Group (supported by Gulbenkian) obtained a writ against the Anglo-Saxon and Anglo-Persian Companies - although the atmosphere at the meeting was reported to have been friendly. ^{2.}

At this stage, then, the whole matter of the Turkish Petroleum Company had five major aspects. Firstly, the Company

1. A subsidiary of the Anglo-Saxon Petroleum Company was prospecting for oil in Farsan. However, Farsan was considered to be within the area covered by the self-denying provision in the pre-war agreements. (The matter was eventually resolved by excluding Farsan from the area).

2. Oliphant to Phipps (Paris) February 18th 1927.
FO 371/12263/104/834.

was proceeding with prospecting operations.¹ Secondly, there was still the question of the Americans taking up their shares. Thirdly, there was the Gulbenkian controversy, still unresolved, tied in with personal animosities, and blocking the way to American participation. Fourthly, there was the Anglo-French correspondence on French rights under the San Remo Oil Agreement, in particular regarding Basra. Fifthly, there was the question of the self-denying ordinance, and the now pending legal proceedings in relation to it. All these aspects were to some extent inter-dependent, even the first point having, indirectly, an effect on all the others when the Company's operations eventually bore fruit.

Not all of these aspects were matters over which the British Government had any control, however. All that that Government could hope to do with regard to most of them was to help to establish an atmosphere of friendly cooperation rather than one of strife. Once again Britain's oil policy had become largely one of "wait and see".

1. The Foreign Office had earlier felt that to allow prospecting in Mosul before the League decision on Mosul had been made would be regarded as "an anticipation of that decision and might have an unfortunate effect both on Turkey and on the League". American criticisms were also feared. In October 1925, however, the Turkish Petroleum Company was allowed to begin work in the southern half of Mosul. The Company had to wait until the dispute was completely settled (by the Treaty of June 1926 between Britain, Iraq and Turkey) before all restrictions were removed. See FO 371/10828/43/4168 and 5986. FO 371/11455/27/1821.

II. The Agreement of 1928

Towards the end of February 1927 the Foreign Office, who were ever anxious about the Americans, received welcome news, for the American Group offered definitely to take up its shares in the Turkish Petroleum Company on the basis of $23\frac{3}{4}\%$ shares to each Group. Gulbenkian was to have 5%, but negotiations with him for the purchase of his shares would be undertaken, and, until these were completed, the Working Agreement would be inoperable. The French then informed the Americans that they and Gulbenkian would accept these terms on condition that the self-denial provisions of the pre-war agreements were accepted by all Groups. Gulbenkian also was willing to sign the Working Agreement if an arrangement were made for the purchase of his share of crude oil under that Agreement, and provided that he was given a directorship in the Turkish Petroleum Company. As the State Department apparently had no objection to the American Group accepting the self-denial provision,¹ negotiations between the various groups could proceed further.

The Foreign Office, however, was still not free from entanglement with the French on the subject of Iraqi oil, for on June 7th 1927 the French Ambassador returned to (inter alia) the

1. F.R.U.S., 1927, II, pp.822-824.

matter of French claims to participation in any oil exploitation carried out in Basra. ^{1.} The Foreign Office, weary of the matter, and feeling that the French claims were in any case of little practical import, decided in the end that the Basra claim should be conceded, if Iraq did not raise objections. ^{2.} There was, however, underlying these Anglo-French discussions, the issue of the self-denying clause enshrined in the 1912 and 1914 agreements. While the French endeavoured to prove the agreements still valid, the British remained unconvinced. Legal advice obtained by the Turkish Petroleum Company at that time tended to support the British view, although there were legal opinions given which supported the French (and Gulbenkian) thesis. ^{3.}

Meanwhile, however, discussions among the Groups on this point had developed to the stage where the idea of getting all the Groups to accept a new self-denial clause was being mooted, and there seemed some prospect that agreement on this point might be reached. ^{4.}

1. French Ambassador to Foreign Office, June 7th 1927.
FO 371/12263/104/2539.

2. See various letters, minutes etc. in FO 371/12263/104/2539. and FO 371/12264/104/2819, 3205, 3665, 3763.
The British were rather puzzled at this time as to what the practical aims of the French were in putting forward the various assertions.

3. See Cadman to Oliphant, June 24th 1927. FO 371/12264/104/2819.
Gwynne ("Morning Post") to Tyrrell, February 9th 1927 and Minute by Malkin, February 12th 1927. FO 371/12263/104/837.

4. All the Groups but the Americans seemed disposed to accept a new self-denial clause, and Cadman expected that even they would accept it as regards production (though not refining).
(Cadman to Oliphant, June 24th 1927. FO 371/12264/104/2819.)

On August 26th 1927 a Draft Agreement was concurred in by all the Groups, including the Americans and Gulbenkian. It was, however, only a draft, and had still to be drawn up into a legal contract -- a procedure which was no mere formality nor a foregone conclusion, as earlier events had so often proved. Then oil was struck at Baba Gurgur in prodigious quantities a few weeks later, which "shifted the problems from the realm of theory to that of fact" ^{1.} and made the participants rather less willing to indulge in disputes and procrastination than they had hitherto been. The Draft Agreement of August 26th 1927 became, therefore, the basis upon which the later definitive contract of July 1928 was drawn up. ^{2.}

The final Agreement, known as the "Red Line Agreement" ^{3.}, was signed on July 31st 1928, after delays occasioned by a tedious dispute over the definition of the area to be included in the scope of the self-denying clause. ^{4.} It provided for a fusion of interests on the basis of 23.75% participation each for the four Major Groups, with

1. Hurewitz, op.cit., Vol. II, p.162.

(Oil was struck in October 1927. For its effects on T.P.C. policy see next Chapter, below).

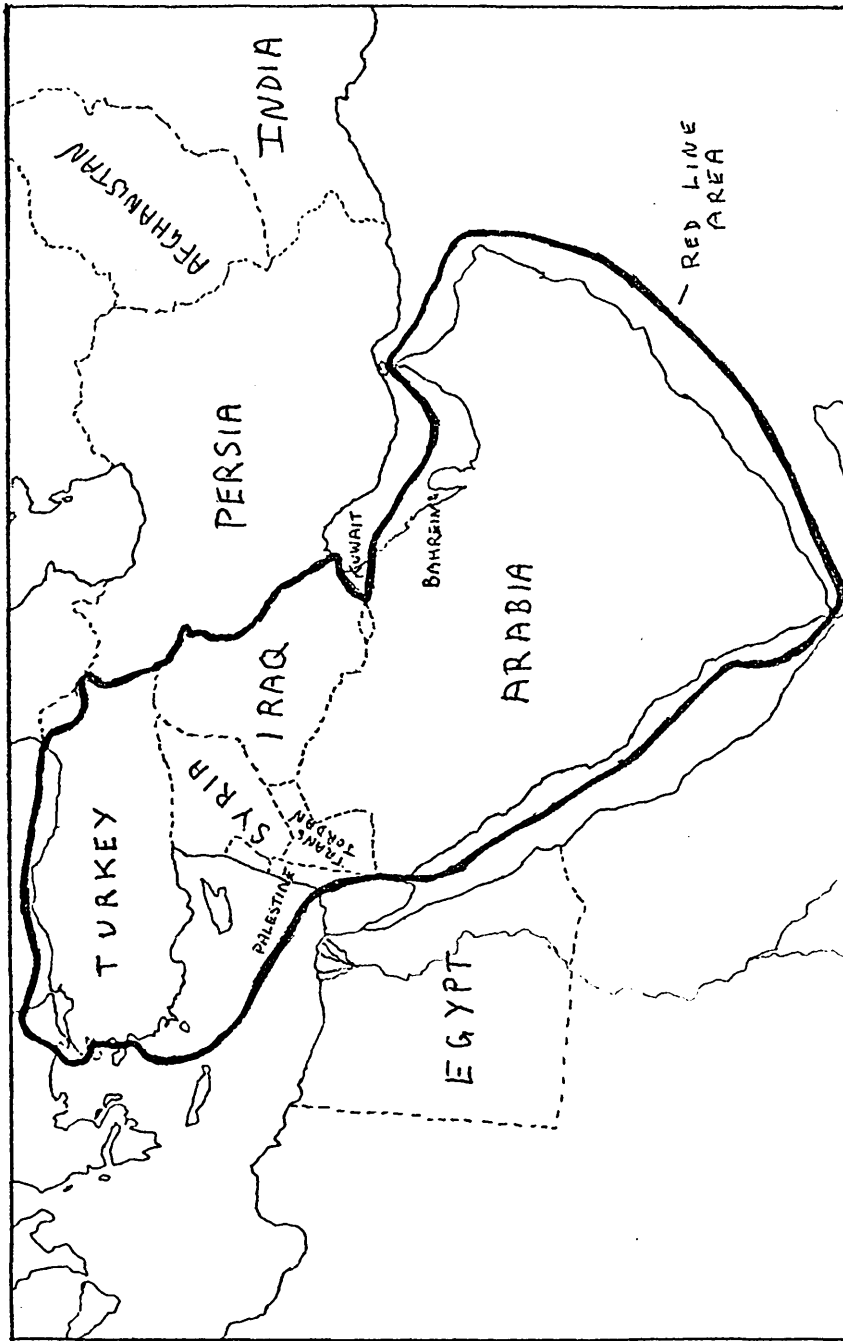
2. A copy of the Draft Agreement of August 26th 1927 may be found at FO 371/12264/104/4242. (Its provisions were very similar to those finally agreed in July 1928).

3. So called because a red line marked the area where the "self-denial" provision applied. Text of the Agreement in Hurewitz, op. cit., Vol. II, pp.162-176.

4. See correspondence and minutes at FO 371/13028/94/330 and 903.

5% for Gulbenkian.¹ The Anglo-Persian Oil Company was to have, in addition, a royalty of 10% of the crude oil derived from the 24 plots to be worked under the 1925 Concession terms.² Each Major Group was to have two directors on the Board; Gulbenkian and the Iraq Government were each to have one.³ The Turkish Petroleum Company was to confine its operations to exploration and production, the oil being offered to the Groups at cost price (the "Working Agreement").⁴ Under Article 10 of the Agreement the Groups undertook not to be interested in any concessions or production within an area defined on a map attached to the Agreement - this was the "Red Line" self-denying clause.⁵ There was, however, one notable exception to this general regulation, in that, under Article 11, the American Group would be allowed to operate, independent of the Turkish Petroleum Company, any plots it

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1. The precise names of the companies involved were:- D'Arcy Exploration Company Limited; Anglo-Saxon Petroleum Company; Compagnie Francaise des Petroles; Participation and Investments Limited (this was the Gulbenkian interest); Near East Development Corporation (the American Group, consisting of Standard Oil (New Jersey), Standard Oil (New York), Atlantic Refining Company, Gulf Refining Company, and Pan American Petroleum and Transport Company).
 2. This was to be free of cost. (Article 12.)
 3. In addition, bringing the number of directors up to twelve, the Chairman and Managing Director were of course on the Board. (Article 4.)
 4. Article 13 (there was provision for a small addition to be added to the cost).
 5. See map on page 290.



THE RED LINE AGREEMENT AREA (1928)

Sources:

Map prepared from information in (inter alia):-
 Tugendhat, Oil the Biggest Business, p. 85.
 United States, Senate, Small Business, Select Committee
 on the International Petroleum Cartel, Staff Report to
 Federal Trade Commission (Committee Report, 82nd Congress,
 2nd Session) (1952) pp. 60-61, and folding map.

obtained by bidding under Article 6 of the 1925 Concession.^{1.}

Article 14 of the Red Line Agreement provided for the construction of a pipeline to the Mediterranean when the concession area had been adequately proved.^{2.} The Groups would be allowed to erect their own refineries at the terminus of this pipeline, but were not allowed, however, to market oil in Iraq. The Turkish Petroleum Company itself would supply this market, but refineries erected for this purpose would not refine more oil than was needed to meet Iraq's requirements.^{3.}

Under a separate "Sale of Oil Agreement" negotiated between Gulbenkian and the French, the French Group was to purchase Gulbenkian's crude oil share,^{4.} although, unknown to Gulbenkian, the French agreed also to share such purchases with the other Groups in the Company.^{5.}

1. Other Groups were also allowed to bid, under certain conditions, independently of the T.P.C. However, these Groups were bound to offer participation to the other Groups in the T.P.C. in any plots so obtained. (The American Group were not so bound). See Articles 10 and 11.
2. This article set out the conditions governing the construction of pipeline facilities to meet the requirements of lessees under Article 6 of the 1925 Concession.
3. Articles 16 and 17. The terms of the 1925 Concession obliged the Turkish Petroleum Company to construct a refinery for oil required for local consumption.
4. On this see N.S. Gulbenkian, op. cit., pp. 95-97.
5. U.S. Senate, Select Committee on the International Petroleum Cartel, p. 62, note 71.

The Red Line Agreement was a defeat for the British, Anglo-Dutch, and American Groups' plans to divest Gulbenkian of all ability to interfere in their schemes. By the Agreement Gulbenkian now had more authority than he had had under the 1914 Foreign Office Agreement, when his 5% shares had been without voting rights. In addition, thanks to French support, he also had the self-denial clause.

The French, who had worked closely with Gulbenkian, shared to some extent in his triumph. They had not supported Gulbenkian out of sentiment, of course, but because in doing so they forwarded their own interests, and, protected by the self-denial provisions, they could now benefit from the utilization of the facilities for oil development which the other Groups possessed. Against this, the French had lost a mere 1.25% of the share they had been allotted at San Remo (although this loss was more than offset by the denial of Iraqi participation in 1925) and also, of course, their share value was diminished by the provision regarding the Anglo-Persian Oil Company's royalty.

The Americans had their Working Agreement and thus could avoid double taxation. They had had to accept the "self-denial" provision, but even this was tempered somewhat in Article 11 of the Agreement. To some extent the self-denial provision can be said to have closed the "Open Door" for which the American Government had clamoured, but its closure was only partial, and in any case applied only to production,^{1.} and not to marketing of products.

1. See on this ibid. pp. 56-61.

The Anglo-Saxon Petroleum Company had gained a very slight increase in percentage over its 1914 share, but as with the American and French Groups, the value of its shares was reduced somewhat by the Anglo-Persian's royalty provision. Also, for what it was worth,^{1.} the Anglo-Saxon now no longer had the support of Gulbenkian.

By the Red Line Agreement the Anglo-Persian Oil Company formally accepted what it had previously agreed to - the reduction of its share from $47\frac{1}{2}\%$ (1914 Agreement) to $23\frac{3}{4}\%$ in return for a royalty of 10% of crude oil from the Iraq concession plots. While it had lost all hopes of overall control, nevertheless it could still congratulate itself on having retained the largest slice of the benefits to be obtained from a Company with which, at its foundation, it had not even been associated.

How successful had the British Government's policy been up to this point, and how far had it achieved its objectives?

To the extent that the Turkish Petroleum Company had at last become a viable unit, incorporating all the elements liable, had they been excluded, to make a great deal of trouble for Britain in her international relations, the British Government's policy had succeeded fairly well. Moreover, the Company had already not only secured the concession which the British Government had striven to gain for it, but it had also, at Baba Gurgur, shown that the British Government's efforts had not been in vain. There was now, it seemed, some prospect

1. The quarrel between Gulbenkian and Deterding over the Venezuelan oil concession had resulted in a permanent rift.

of Britain having a useful source of oil in an area where she still had some measure of control and which, also, once the pipeline was constructed, would be within relatively easy reach of Britain (in peace time at least) in addition to being a useful supply source for the British Mediterranean Fleet.

On the other hand, it should be noted that the British Government had not, in the event, secured what originally had been one of its prime objectives - British control of the Turkish Petroleum Company. This objective had been secured in March 1914 and, assuming that the Turks could have been induced eventually to grant a definitive concession, it would presumably have been retained had not the war intervened. Even when the French had been reluctantly admitted, this objective was still not immediately abandoned - until the American onslaught rendered its retention impossible.

On balance it is true to say that the British Government's shifting, and at times confused, policy regarding the Turkish Petroleum Company had succeeded reasonably well by the time the Red Line Agreement was signed.¹ As things turned out, however, this was by no means the end of the British Government's problems with regard to Iraq oil, as will be seen presently.

1. To some extent, however, the British Government's interests suffered later through the application of the self-denial provisions when the A.P.O.C., having secured a concession in Qatar, had perforce to share it with the non-British members of the T.P.C. (See Chapter 14, below).

CHAPTER 10

THE PIPELINE CONTROVERSY: THE FIRST PHASE (1928-29)I. The political background

During the period 1922 to 1927 British and Iraqi officials had worked fairly harmoniously together. Increasingly, however, Iraqi desire for complete freedom from British tutelage became manifest.

The Anglo-Iraqi Treaty of 1922 had envisaged a twenty-year mandatory period, which period had been reduced to four years by a protocol of 1923. Iraqi insistence on independence became very strong as the stipulated period drew to a close but, despite Iraqi clamour, the British refused to sponsor Iraq's entry into the League of Nations in 1928. In 1930, however, following a period of growing mutual mistrust and impatience, a new treaty was concluded between Britain and Iraq providing for, inter alia, Iraq's entry into the League in 1932. After the conclusion of this treaty, both Britain and Iraq became anxious not to do anything which might worsen the chances of Iraq gaining League approval for her application, and thus placed great stress on the maintenance of cordial relations with League Members.¹

Among League Members, France was particularly important in this context, because of her direct interest in the area. During the period 1922-32 Anglo-French rivalry in the Middle East was fairly strong, and, amongst other things, Britain suspected French motives in trying to foster economic enterprises in Persia (though these were not on any great scale), and resented reported French moves to

1. The best general studies of Iraq are, as indicated earlier, Longrigg, Iraq 1900 to 1950, Ireland, op.cit., and Foster, op.cit.

make political contacts with members of the Iraqi royal family.¹ The French for their part still held some lingering resentment over what they considered to have been British injustices at the Peace Settlement,² and were to some extent jealous of Britain's position in Iraq.

The borders of the French mandated territory of Syria with the British mandates of Transjordan and Iraq were still not finally delimited during this period, though a series of Anglo-French discussions on delimitation was held, attended often by bickering and disagreement. In Syria itself, the French encountered difficulties in that nationalist fervour was strong, and definitely anti-French. Although the French managed to crush a revolt which broke out in 1925, and kept other incipient risings at bay, they had great difficulty in establishing a working constitution for Syria.³

Some of the difficulties in Syria, the French felt, were at least partly attributable to British machinations. Whereas French policy was one of decentralization, the Syrians' policy tended in the opposite direction. Moreover, there was a definite movement in the area aiming for a degree of Arab unity, envisaging ultimate union of all the lands of the "Fertile Crescent". This movement was sponsored and encouraged by King Feisal of Iraq, and, in the French

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1. One particular example of this occurred in 1931, when the French made approaches to King Feisal's brother Ali (at one time King of the Hedjaz) suggesting he should become a candidate for the throne of Syria. What the British resented about this approach was that it seemed to be aimed at swaying Iraqi policy with regard to the T.P.C. pipeline alignment (on which see below) against British wishes.
(High Commissioner (Baghdad) to Colonial Office, January 10th 1931 CAB 27/436. IOC (3028).
 2. The French still felt that they had been "swindled" somehow in the abandonment of the 1916 Sykes-Picot Agreement (see Chapter 3 above, Section I).
 3. For accounts of French policy in Syria see S.H. Longrigg, Syria and Lebanon under French Mandate (London, 1958) and A.H. Hourani, Syria and Lebanon (London, 1946).

view, the British were deliberately encouraging these ideas, for their own purposes.^{1.}

In fact the British Government did not encourage such ideas in this period.^{2.} They were all too well aware that such a deliberate policy would greatly increase friction with the French. It would also, it was feared, be bitterly resented by the Jews in Palestine, and, because of his hostility to the Hashemites, would incur the enmity of the ruler of Arabia, Ibn Saud.^{3.} True, now that Britain's traditional Nineteenth Century strategy of supporting Turkey in order to safeguard her interests in the Middle East as a whole (and beyond) had had to be abandoned, Britain did endeavour to extend her influence over the Arabs in the lands of the former Ottoman Empire - but Britain was not prepared to do this to the exclusion of every other consideration.^{4.}

Such reasoning did not greatly appeal to the French, however, who continued to view everything which the British did with suspicion - an attitude fully reciprocated by the British. Partly through ill-conceived notions of the other's true motives, partly through traditional mistrust of each other, therefore, Anglo-French jealousy and rivalry in the Middle East persisted. Any development likely to enhance the position of one rival in the area automatically produced

1. E. Monroe, Britain's Moment in the Middle East 1914-56. (London, 1963) p.83.

2. (Despite the promises implicit in the famous wartime Hussein-McMahon correspondence (Parliamentary Papers 1939 (Cmd 5957) xxvii, 573.))

3. Monroe, op.cit., loc.cit.

Relations between Iraq and Ibn Saud were never good during this period. Apart from border and other disputes there was also a certain rivalry for leadership of the Arab world (See J.Morris, The Hashemite Kings (London 1961)).

On Palestine see R.I.I.A., Great Britain and Palestine (London 1939).

4. P.A. Reynolds, British Foreign Policy in the Inter-War Years (London, 1954) p.53.

an attitude of opposition in the other. It was in this situation, after the striking of oil by the Turkish Petroleum Company in 1927, that discussions on, inter alia, a project for the construction of a pipeline to carry oil from Iraq to the Mediterranean seaboard became important and, at the same time, difficult.

II. British interest in the pipeline project 1919-1928

The Turkish Petroleum Company began drilling for oil in Iraq in April 1927. In June of that year a well was "spudded in" at Baba Gurgur (north of Kirkuk) which in October yielded oil in prolific quantities, and thereby brought to the fore the question of the construction of a pipeline to the Mediterranean.^{1.}

The question of the alignment of the pipeline, and the choice of its port of debouchment, had been a subject of interest to the British Government at least since the time when the breakup of the Ottoman Empire had been envisaged during the First World War.^{2.} The Petroleum Imperial Policy Committee had concerned itself with the matter in 1918, and early in 1919 its Chairman, Lord Harcourt, had been anxious that the French should agree to the pipeline passing through French territory.^{3.} The Admiralty, however, who were greatly concerned with the strategic side of the question, stressed that any pipeline constructed should run "to a port on the Syrian littoral

1. Longrigg, Oil in the Middle East, pp. 70-71.

There had already been questions on the subject asked in Parliament (in March and May, 1927). (Parliamentary Debates (H of C) 5th ser., Vol. 204 (1927) cols.15-16, and Vol.206 (1927) cols.198-199.)

2. The Admiralty wrote to the Foreign Office on the subject in December 1916. (Admiralty Policy in relation to the Peace Settlement, January 1919. ADM 116/1861, page 44.)

3. Curzon to Balfour (Paris) February 3rd 1919.

FO 608/231/file 1371/1/2/1349.

See also Report and Proceedings of the Petroleum Imperial Policy Committee, pp.9, 32-33, 83-84. FO 368/2255/87990/141764.

(Haifa was suggested) which would give access to Mesopotamia through
 1.
 territory entirely under British influence", and this tied in with
 current plans for a military route from Baghdad to the Mediterranean.
 At this time, too, the Anglo-Persian Oil Company was considering the
 question of surveying the area with a view to constructing a pipeline
 from Persia, and approached the War Office on the subject; the
 Company was not at this time in favour of a southern alignment, which
 the War Office wanted, but it nevertheless indicated its willingness
 to consider such an alignment if there was some prospect of there being
 a railway constructed on this route. Various delays and difficulties,
 however, prevented much progress being made, and a survey party sent
 out early in 1920 was forced to abandon the project in June of that
 2.
 year.

Meanwhile, as has been seen earlier, the various Anglo-French
 Oil Agreements of 1919 and 1920 provided for passage of a pipeline
 from Iraq across French territory should such passage be required.
 Also, on December 23rd 1920, a Franco-British Convention was signed
 which gave the British Government the right to ask for a concession
 to readjust the frontier line in the Yarmuk valley should such
 readjustment be necessary to enable a British railway and pipeline
 to run through all British territory. The option on this was to

1. Admiralty Policy in relation to the Peace Settlement, January 1919,
 page 30. ADM 116/1861.

2. See various notes, minutes etc. under the following references:-
 FO 371/3880/4303/120358. FO 371/4231/102161/102161, 148291, 163513.
 FO 371/5059/4/3041. FO 608/231/1371/1/4/2633.

1.

expire ten years from the signature of the Convention.

In 1921 some discussion relating to the pipeline project (together with discussions on road, rail, and air routes) took place at the Cairo Conference,^{2.} but nothing came of the various projects either for a pipeline or a railway, and there the matter stood when the Turkish Petroleum Company struck its gusher late in 1927.

As can be seen from the above, the question of the pipeline and the question of a railway from Iraq to the Mediterranean were closely linked, since the construction of a railway would greatly facilitate^{3.} the construction and maintenance of a pipeline.

On November 1st 1927 the Committee of Imperial Defence gave some consideration to a project for constructing a railway from Baghdad to Haifa, for which at this time Sir Albert Stern was putting forward^{4.} tentative proposals, and it was then formally concluded by the Committee that the construction of such a railway was desirable, on strategic grounds, if it ran through all British territory. Sir Charles Madden (First Sea Lord) stressed in these discussions the now familiar

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1. Parliamentary Papers (H of C) 1921 (Cmd 1195) xlii, 669. "Franco-British Convention on certain points connected with the Mandates for Syria and the Lebanon, Palestine and Mesopotamia," Article 5 (3).
 2. Report on the Middle East Conference held in Cairo and Jerusalem, March 12th-30th 1921. CAB 24/126. CP. 3123, pages 11, 193.
 3. There was also the added consideration that the close proximity of the rail and pipeline would be an advantage from the point of view of defence.
 4. Sir Albert Stern, of Stern Brothers Ltd., was associated with the firm of Schröders (the banking firm) in the project.

Admiralty point of view in favour of a pipeline to the Mediterranean preferably debouching at Haifa. To this, however, Sir Samuel Wilson (Under-Secretary of State for Colonial Affairs) pointed out that as the French had a substantial interest in the Turkish Petroleum Company there might be difficulty in ensuring that the pipeline ran through British territory entirely.^{1.}

The problem which the British Government faced in trying to ensure, as it now sought to do, that the pipeline went to Haifa, was fundamentally one of geography and economics, with strategic and political factors complicating the issue. The Haifa route was approximately one hundred miles longer than the other possible routes, which of course meant that an extra hundred miles or so of pipeline would have to be laid if this route were chosen. Notwithstanding the fact that the Haifa route was considered (in British official circles at least) to be more secure than the others, due weight would have to be given by the Turkish Petroleum Company to that route's greater length and the consequent greater expense entailed in construction and maintenance.^{2.}

1. Minutes of the Committee of Imperial Defence, November 1st 1927.
CAB 2/5. 230th Meeting (1).

2. For a comprehensive review of the advantages and disadvantages of the several routes, see the Report referred to in the next footnote, below. (See also Map at p. 362 below).

The British Government's interests in the pipeline and railway project were well set out in a report, dated June 13th 1928, of a Committee of Imperial Defence Sub-Committee on the Construction of the Proposed Haifa-Baghdad Railway and/or Pipeline.^{1.} The Report pointed out that the Fleet would gain a reliable source of oil which could be very important if political developments rendered the Persian supply uncertain. This source would be a thousand miles nearer to the Home theatre of operations, would be immediately available for Mediterranean operations, and, furthermore, would be on the direct line of the navy's passage to the Far East. If a pipeline link to the Mediterranean from South Persia were made (as was then planned), oil could be switched either to Haifa or to Abadan as naval circumstances required. The railway would be a line of communication from Cairo to Basra, alternative or additional to the Suez Canal, which, the Committee Report stressed, would be important in a Middle East War, "or, in particular, (in a war) with Russia". There was, however, the fact that the railway increased Britain's defence commitments to be considered.^{2.}

1. Committee of Imperial Defence: Sub-Committee on the Construction of the Proposed Haifa-Baghdad Railway and/or Pipeline. Report June 13th 1928 CAB 24/202. CP.68(29).

2. Ibid., pp.13, 17.

The Report also noted the desirability of the overland and air routes following the same routes, to facilitate the defence of each.

In the economic sphere the Committee considered that the Baghdad-Haifa Railway and Pipeline project would benefit Great Britain "by the general expansion of Middle Eastern trade, and by the existence of the terminal of a big oil supply at a port under British control in the Mediterranean". The development of Middle East oilfields would strengthen British oil interests and reduce Britain's dependence on America. Iraq also would benefit by obtaining royalties on oil exports, and would benefit from the existence of a railway "in particular as a cotton- and grain-producing area", while Palestine would benefit in the development of Haifa, and in the employment provided by the construction and maintenance work involved in the project. The railway would also facilitate development in Transjordan.^{1.}

The Committee concluded its Report by stressing that, as the Baghdad-Haifa Railway was not in itself a commercial proposition, it would not be constructed without assistance from either the interested governments or the oil companies, or from both. The Turkish Petroleum Company, it was felt, might possibly approach the French Government for assistance with a Syrian railway project. There was thus, it appeared, only one way of ensuring that the pipeline would be laid in British-controlled territory, and that was for the British Government to arrange for the construction of the Haifa - Baghdad Railway, in

1. Ibid., p.14.

The Report also stated that Persian trade might find an advantageous route via Baghdad and Haifa, although Persia might not desire this if it interfered with Persian railway plans.

collaboration with the oil companies. However, the Report ended, "in view of the uncertainty which at present surrounds the whole matter, no action is necessary or desirable at the moment". If the oil companies came forward with proposals, these should be accepted only if they did not commit the British Government, Iraq, and Palestine to a liability of over £3,000,000, and only if the oil companies guaranteed in advance to construct the pipeline alongside
 1.
 the railway.

The conclusions of the Report of June 13th 1928 indicate the attitude which was to prevail and to cause so much trouble subsequently. The British Government wanted the pipeline to go to Haifa for strategic (and political) reasons but, appreciating the disadvantages of this route from the point of view of construction and maintenance expenses, and seeing the only means of outweighing these disadvantages to be by the construction of a railway, it had therefore become more than ever interested in the railway scheme. However, although wishing to facilitate the railway's construction, the British Government nevertheless was not prepared to lay out any really substantial sums of money for it. Eventually, therefore, the British Government was to resort to other methods of securing a Haifa alignment, which methods then involved that Government in a tangled mass of troubles with both the oil companies and the French Government, from which it was to

1. Ibid., pp. 18, 19.

find great difficulty in extricating itself.

III. The Turkish Petroleum Company's Extension Proposal and the Entry of the B.O.D. Company.

The oil strike at Baba Gurgur had aroused great interest in British official circles. Nevertheless, it had not been followed by any immediate drawing up of plans by the members of the Turkish Petroleum Company in order to get the pipeline project under way, because their thoughts were already turned in another direction. The Turkish Petroleum Company could not, they held, employ its resources immediately on the pipeline project because, by the terms of the 1925 Concession, it had to choose its 24 plots by November 28th 1928.¹ However, they stated, if an extension of this limit were granted, then progress with the pipeline could be made.²

1. Article 5 of the Concession read: "Within 32 months after the date of this Convention the Company shall select 24 rectangular plots, each of an area of eight square miles..."

The Company thus originally had to select plots by November 1927. However, it was granted an extension of one year in August 1927. (United States, Senate, Small Business, Select Committee on International Petroleum Cartel, Staff Report to Federal Trade Commission. (Committee Report, 82nd Congress, 2nd Session) (1952) page 68).

2. Note of a conversation with Sir Adam Ritchie (Turkish Petroleum Company) on November 11th 1927, by Sir H. Dobbs, November 12th 1927. FO 371/12277/1412/4886.

Whether or not this was the real, and the only, motive of the Turkish Petroleum Company at this juncture is not known,^{1.} but some suspicion was entertained in British Government circles that the Company was deliberately trying to secure an eventual abandonment of the plot system altogether. Also, the then current world over-supply of oil^{2.} was possibly a factor discouraging early development of Iraqi oil, although the Company denied that this factor had any influence on its policies.

On January 19th 1928 the Turkish Petroleum Company applied to the Iraq Government for an extension to the time limit in which it had to choose its 24 plots.^{3.} After some discussion,

1. Cadman endeavoured to make a convincing case for the Company's request, arguing that the T.P.C. had so far not sufficient information "to justify the selection of even one single plot". Baba Gurgur, despite its great promise "could not by itself justify the laying of a pipeline, which (would) cost millions sterling". (Memo by Cadman: Summary of Reasons for asking for an Extension (January 1928). FO 371/13028/94/919.) On the other hand Ritchie (of the T.P.C.) told Dobbs that sufficient oil had been proved to justify pipeline construction (Note of a Conversation with Sir Adam Ritchie, by Sir H. Dobbs, November 12th 1927. FO 371/12277/1412/4886.)

2. See above, Chapter 1.

3. Dobbs (Baghdad) to Colonial Office, January 28th 1928. FO 371/13028/94/494.

the Colonial Office instructed Dobbs to support the request provided that the extension requested did not exceed five years and provided also that the Company proceeded to order a pipeline as soon as tests were satisfactory, without waiting for full selection of plots.¹ On April 2nd Dobbs reported that the Iraq Government had approved the five years' extension, subject to Parliamentary approval.²

Thus, the Turkish Petroleum Company apparently was well on the way to achieving what it sought. It had gained acceptance for its extension proposals from the Iraq Government, and future acceptance by the Iraqi Parliament did not seem fraught with difficulties. Moreover, the Company was, as usual, able to rely on the British Government for support.

Trouble began for the Turkish Petroleum Company (and therefore for the British Government), however, with the appearance of a rival in the field -- the B.O.D. Company ("British Oil Development Company", but its registered name was "B.O.D. Limited"),³ a company registered in London on March 1st 1928. Associated with it were prominent shipowners, coalowners, and

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1. Colonial Office to Dobbs, March 8th 1928. FO 371/13028/94/1263.
 2. Dobbs (Baghdad) to Colonial Office, April 2nd 1928.
FO 371/13028/94/1936.
 3. Longrigg, Oil in the Middle East, page 74, note 1.

building contractors, including the ever-active Lord Inverforth, Admiral Wester Wemyss, and E.M. Iliffe, M.P. (Chairman of Allied Newspapers). Also associated with it was F.W. Rickets - "a pest and a most persistent and dangerous intriguer who is responsible for a good deal of misunderstanding and mutual suspicion both in Angora and in London." ¹. As has been seen in Chapter 8, several of the people involved in the B.O.D. Company had been (allegedly) associated with anti-Turkish Petroleum Company intrigues in the past. Their opposition was now to be more powerfully (and overtly) exercised against that Company, for on April 18th 1928 Dobbs reported that the B.O.D. Company was about to make a formal application to prospect for oil in Iraq. ².

In Dobbs' opinion the chances of the Turkish Petroleum Company getting its extension proposals through the Iraq Parliament were now very slim, for the Iraqis would clearly want to benefit from throwing open the area outside the 24 plots now that there was a likely bidder in the field. Dobbs therefore

1. Memo on B.O.D. Company Limited ("Strictly Confidential") enclosed in Sir E.T. Crowe (Department of Overseas Trade) to Shuckburgh (Colonial Office), August 13th 1928.

FO 371/13029/94/4154.

For reference to some of Rickets's earlier intrigues, see Chapter 8 (above).

2. Dobbs (Baghdad to Colonial Office, April 18th 1928.

FO 371/13028/94/2103.

suggested that it would be best for the British Government to withdraw its support for the extension proposals, otherwise there might be "many complications and possible difficulties, both with Iraq and foreign powers."¹ Dobbs' fears were enhanced by the reported interest of the group in a Mediterranean pipeline and railway, and he feared that this might sway King Feisal to suspend his consent to the extension of the Turkish Petroleum Company's time limit.² The Colonial Office, however, refused to be panicked, and instead urged Dobbs to do what he could to get the extension proposals through Parliament.³

Lord Wester Wemyss, of the B.O.D. Company, arrived in Baghdad on May 17th. Although at this stage the B.O.D. Company wanted a friendly arrangement with the Turkish Petroleum Company, it was obvious that, failing such arrangement, it was prepared to make the situation extremely difficult for its rival. One useful card in its hand was the geologist, De Loys, who, as a former employee of the Turkish Petroleum Company, was armed with information which could be utilised in an anti-Turkish Petroleum

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1. Foreign groups desirous of gaining entry under Article 6 would obviously press their governments to protest if the operation of this clause was postponed for several years. See also various other points in: Dobbs (Baghdad) to Colonial Office, April 27th and April 28th 1928. FO 371/13028/94/2417.
 2. See: Dobbs (Baghdad) to Colonial Office, May 4th, 5th, 14th and 15th, 1928. FO 371/13028/94/2417, 2458 and 2559. (King Feisal was known at this time to be keen on having a railway to the Mediterranean coast).
 3. Colonial Office to Dobbs (Baghdad) May 16th 1928. FO 371/13028/94/2625.

Company campaign. According to De Loys, the Turkish Petroleum Company was "not playing quite straight" with Iraq and the British Government, and, he stated, the Company's only difficulty was that it could not include all the rich areas in the concession in its 24 plots, but would need at least 42. The Company's policy was to get the five years' extension, and then another five,

hoping that by the end of that time they (would) have gained such a grip on the country that they (would) be in a position to arrange in some way or other for other interests to be permanently excluded. Pretence that they (were) unable to select the best areas immediately and construct pipeline without delay (was) without foundation.

As Dobbs (to whom De Loys made these allegations) pointed out, whether or not the allegations were true, it was easy for the B.O.D. Company to "queer the pitch... and prejudice (the) Iraq Parliament against the Turkish Petroleum Company".¹

The Turkish Petroleum Company was not prepared to compromise with the B.O.D. Company, and clearly expected full British Government support in its stand. The British Government, however, was only prepared to go part of the way with its troublesome protégé, -- such as by trying to persuade the Iraq Government to submit the Turkish Petroleum Company's proposals to Parliament without delay -- although it had doubts about the

1. Dobbs (Baghdad) to Colonial Office, May 19th 1928 (Teleg. No. 283.) FO 371/13028/94/2687.

genuineness of the rival B.O.D. Company's tempting railway offer to Iraq, and hoped that the Turkish Petroleum Company itself would counter this offer with equally tempting railway proposals. ^{1.}

Early in July 1928 Ritchie, General Manager of the Turkish Petroleum Company, arrived in Iraq, his purpose being to find out exactly what the situation was with regard to both his Company's proposed extension of the time limit and the B.O.D. Company opposition. Although he himself did not realize it, it was also intended that he should be instrumental in securing his Company's support for the Haifa railway project, which was one of the prime objectives for which Cadman had sent him. ^{2.}

The importance of the part played by Sir John Cadman in the Pipeline Controversy (and, indeed, in the whole oil scene of the inter-war years) was very great. ^{3.} As Chairman of both the Turkish Petroleum Company and the Anglo-Persian Oil Company, and as a former

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1. Minute by J.H. Hall, May 22nd 1928. FO 371/13028/94/2742.
Colonial Office to Dobbs (Baghdad) May 22nd 1928.
FO 371/13028/94/2734.
 2. "Ritchie as salaried official representing foreign as well as British interests in the Turkish Petroleum Company is placed differently from Cadman, is not fully in his confidence and is unaware of the objects which Cadman hopes to achieve from visit" (Colonial Office to Dobbs (Baghdad), June 19th 1928
("Important, Secret") FO 371/13029/94/3178.)
 3. It is unfortunate that Cadman's personal papers were destroyed some years ago, and that access to his papers in the British Petroleum Company (and Iraq Petroleum Company) archives is denied. His biography (J. Rowland and Lord Cadman, Ambassador for Oil (London 1960) is far too scanty of detail to be of much help in this study.

British Government official still very much persona grata in Government circles, Cadman's position was unique, and it gave him a great influence in the confusing multilateral tug-of-war which occurred over the alignment of the pipeline, and other issues, in the late 1920's and early 1930's. Cadman could, and did, sway the Turkish Petroleum Company's policy one way or another - and, in the nature of things, inevitably he tended to steer that Company in the direction in which its British element, the Anglo-Persian Oil Company, desired that it should go. This direction was, of course, very often (but not always) the same direction that the British Government wished it to go. In fairness to Cadman, however, it should be noted that he himself had been reluctant to take over the position of Chairman of the Turkish Petroleum Company. He had felt, rightly, that the chairman of such a composite international company ought to be independent of any of its component groups.^{1.}

Ritchie, after seeing King Feisal and the Iraqi Prime Minister, telegraphed to the Turkish Petroleum Company in London that, in view of strong Iraqi feeling, the Company ought to give a definite assurance that if it constructed a pipeline to the Mediterranean it would also simultaneously arrange for the construction of a railway. In return, the Company would be granted the five years' extension, along with the right to exchange plots as it wished.^{2.}

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1. Cadman to Gulbenkian, September 12th 1927. FO 371/12264/104/3942.
 2. Dobbs (Baghdad) to Colonial Office, July 6th 1928. FO 371/13029/94/3411.
The T.P.C. had earlier asked for the right, after its initial selection of plots, to exchange any selected plot which it no longer wished to develop for any plot which it had previously released.

On July 12th the Turkish Petroleum Company Board approved this proposal, and telegraphed Ritchie accordingly. There was, however, no specific mention of either Baghdad or Haifa in the Company's telegram, although at this time apparently the Colonial Office was under the impression that Haifa was specified as the port of debouchment. In instructing Dobbs to support the Company's proposals, the Colonial Office urged him to ensure that the Iraq Government sufficiently clarified everything so as to leave no loophole for the Company to wriggle out of the railway commitment. The Colonial Office telegram also, significantly, impressed on Dobbs the need for discretion because, it stated, it was important that Ritchie and the foreign groups in the Turkish Petroleum Company "should not realise that Cadman (was) in close touch and cooperating with His Majesty's Government in
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this matter".

On July 16th both the Turkish Petroleum Company and the B.O.D. Company presented formal proposals to the Iraq Government. The B.O.D. Company proposal was an offer to make an immediate survey for a railway, without cost to Iraq, in return for which the Company asked for 24 plots in Mosul and Baghdad. If oil were proved, the Company would build its own pipeline. The B.O.D. Company also intended, apparently, to give a written undertaking to construct that section of a Baghdad-Haifa railway which lay inside Iraq (about half the total length) in

1. Colonial Office to Dobbs (Baghdad) July 13th 1928 (Teleg. No. 280, "Important, Secret") FO 371/13029/94/3585.

return for being allowed to bid for its plots in November of that year. Furthermore, the Company offered to settle the Sultan's heirs' and other claims, which were still being pressed. ¹.

The Turkish Petroleum Company's proposal of July 16th was an offer to assist with others in furnishing a guarantee for the construction of a Haifa-Baghdad railway ("Haifa" was now specified be it noted) without cost to Iraq, railway construction to begin simultaneously with pipeline construction, "should construction of railway at that time prove (a) commercial possibility." In return the Company would obtain a five years' extension to the time limit for choosing its plots. ².

The Iraqi Prime Minister immediately objected to the Turkish Petroleum Company's proviso that the railway must be adjudged a "commercial possibility" before construction could be undertaken, and he demanded a more binding undertaking from the Company. ³. Eventually, after considerable discussion by all the parties concerned, various modifications to the original proposals were carried out, resulting in, inter alia,

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1. Dobbs (Baghdad) to Colonial Office, July 17th and July 18th 1928. FO 371/13029/94/3612.
For the Sultan's heirs' and other claims, see above, p.129.
 2. Dobbs (Baghdad) to Colonial Office, July 17th 1928.
FO 371/13029/94/3612.
It is not clear whether or not the proposals also provided for the Company to exchange plots.
 3. Ibid.

the originally proposed five years' extension being converted to an initial extension of only eighteen months, the balance of the five years to be subject to satisfactory terms being arranged. These modified proposals were approved by the Iraqi Cabinet on August 18th. ¹.

Thus far, then, the Turkish Petroleum Company appeared to have made only limited headway towards its goal of securing a long extension to the time limit for choosing its plots. Much of the responsibility for this lay with the B.O.D. Company, whose intervention had first made the Iraq Government a little more sensitive to popular opinion within Iraq on oil matters, and then in consequence had stiffened that Government's attitude vis-a-vis the Turkish Petroleum Company's extension proposals. Instead of having a five-year extension granted practically without conditions, the Turkish Petroleum Company had only secured one for eighteen months; if it wished to secure the remaining three and a half years' extension it had to arrange to participate in the construction of a Haifa-Baghdad railway, thereby increasing its commitments beyond what it had originally intended.

1. Dobbs (Baghdad) to Colonial Office, August 20th 1928.
FO 371/13029/94/4178.

(For the various interesting points raised in the discussions leading up to the Iraqi Cabinet's Resolution of August 18th see FO 371/13029/94/3744, 3794, 3795, 3796, 3812, 3858, 3992, and FO 371/13761/62/1710.

The B.O.D. Company's intervention had at the same time complicated matters for the British Government. However, in so far as that Government wished to influence the Turkish Petroleum Company's policy with regard to the proposed pipeline and railway project, the intervention could be regarded as beneficial, in that the Turkish Petroleum Company now needed that Government's support even more than before. This was true at this juncture -- until, as will be seen, the British Government overreached itself on this matter and became involved in a dangerous controversy with the French.

IV. The Anglo-French Pipeline Controversy

Early in October 1928, as the B.O.D. Company began to mount an anti-Turkish Petroleum Company campaign - spiced with wild tales of Foreign Office machinations to keep the British Prime Minister, the Acting Foreign Secretary (Lord Cushenden), and others, in the dark on the situation ¹. - the Turkish Petroleum Company began to court trouble by going back on the proposals already approved by the Iraqi Cabinet. Part of the

1. Dobbs (Baghdad) to Colonial Office, October 4th 1928.
FO 371/13030/94/4924.

See also FO 371/13030/94/5223, 5233, 5296 and (for B.O.D. Company approaches to the Colonial Office) FO 371/13030/94/5325.

reason for this change of front was, as will be seen, symptomatic of the uneasy marriage of the different interests which now formed that most international of oil companies.

The Turkish Petroleum Company sent a revised draft of its original proposals to the Iraqi Government. Various important changes had been made, including the omission of the earlier promise to construct the railway simultaneously with construction of the pipeline, and the omission of any specific mention of "Haifa" as the proposed terminus.¹ It appeared that the French representatives on the Turkish Petroleum Company Board had raised objections (on general grounds) to the specific mention of Haifa. However, apparently they were willing to bind themselves in a letter to the selection of Haifa for the railway, and according to Cadman they had raised objections rather to avoid political complications with their Government than because of any objection to the selection of Haifa in particular.²

1. Dobbs (Baghdad) to Colonial Office, October 9th 1928.
Shuckburgh to Oliphant, October 15th 1928.
 FO 371/13030/94/4898.

2. According to Cadman the French objection at this time was not so much to Haifa itself as to the mention of any terminal outside Iraqi territory, "their objection being not to Haifa in particular but to the commission by Iraq of an 'acte politique' entirely beyond its competence".
Shuckburgh to Oliphant, November 2nd 1928, and
Cadman to Amery, October 31st 1928. FO 371/13030/94/5325.

It was at this juncture, after certain unsuccessful private attempts had been made to get the Turkish Petroleum Company to go back to its initial proposals, that the British Government, departing rather markedly from its practice of avoiding direct involvement in Turkish Petroleum Company affairs, overreached itself. The main responsibility for the miscalculation rested with the Colonial Office, though the other Government Departments also were not entirely blameless.

The Colonial Office, on hearing of the changes made in the Turkish Petroleum Company's proposals, decided that the omission of any specific mention of Haifa from the proposals was unacceptable, and called an inter-Departmental Conference to discuss the matter. Then, after prolonged discussion at the Conference. (on November 5th), and after Cadman had made it plain that there was now no chance of his Company agreeing to specific mention of Haifa in the proposed Agreement, it was decided that the only course of action open was to ensure that Haifa was specified as the railway terminus in a letter which would bind the Company. However, the Colonial Office was itself anxious to draft this letter, and this was agreed to.¹

1. Minute by H. Seymour, November 5th 1928.
FO 371/13030/94/5325.

By November 8th Cadman had accepted the Colonial Office's draft letter - which contained an assurance that a railway survey "(would) be made in the first instance... from Baghdad to Haifa", and that a construction project would be submitted for that route (unless insuperable difficulties were revealed by the survey) ¹. - and had telegraphed it to Baghdad. He had then, in a letter dated November 9th, informed M. Mercier of the French Group of his action, and asked for his approval. ².

Then, in mid-November 1928 a long and at times bitter Anglo-French controversy over the pipeline began. On November 16th the French Ambassador in London (M. Fleuriau) called at the Foreign Office and gave Lindsay (Permanent Under-Secretary of State) a copy of Cadman's letter of November 9th to M. Mercier. He then enquired whether or not the British Government had pressed the Turkish Petroleum Company to construct the proposed railway from Baghdad to Haifa, drawing attention to a statement made by Cadman (in the letter of November 9th) that the letter telegraphed to Baghdad concerning railway construction ³. was sent, "afin d'obtenir l'entier appui de la puissance mandataire et une

1. Cadman to Shuckburgh, November 8th 1928, and Colonial Office to Dobbs, November 8th 1928. FO 371/13030/94/5392.

2. Cadman to Mercier, November 9th 1928. FO 371/13030/94/5470.

3. (That is, the letter drafted by the Colonial Office).

pression suffisante sur les Iraquiens". The French Ambassador stated that his government considered that the Company's involvement in railway construction might diminish the value of the French share in Iraqi oil. ^{1.}

In replying officially to the French démarche, on November 28th, Sir Austen Chamberlain (Secretary of State for Foreign Affairs) avoided making any direct answer to the French query as to whether or not the British Government had intervened in the Iraq-Company negotiations, and instead concentrated on explaining the terms of the proposed agreement on the Company's extension proposals, stating that the British Government "(did) not consider that there (was) any objection to the agreement". ^{2.} On December 1st, however, M. Fleuriau again called at the Foreign Office, complaining that the British note did not reply exactly to the question posed, and appealing to the British Government to intervene with the Iraq Government to induce that Government to abandon its requirements (for a railway) ^{3.} "which were ^{4.} injurious to the Turkish Petroleum Company and to French interests".

1. Minute by Lindsay, November 16th 1928. FO 371/13030/94/5470.

2. Sir A. Chamberlain to M. de Fleuriau, November 28th 1928.
FO 371/13030/94/5470.

3. The extremely important point as to how far the Iraqis (a) desired a railway to the Mediterranean (b) desired that the terminal of the pipeline and railway be at Haifa, will be dealt with subsequently in the remainder of this Chapter and in Chapter 11.

4. Sir A. Chamberlain to Sir W. Tyrrell (Paris) December 5th 1928.
FO 371/13030/94/5752.
The French views were reiterated in a note of December 13th.
(Memorandum from the French Embassy, December 13th 1928
FO 371/13030/94/5919.

Several weeks later the Foreign Office had still not made any direct reply to the French approaches. On January 7th 1929 Tyrrell (British Ambassador in Paris) warned his home Government that any attempt to maintain the stand for Haifa as the port of debouchment by insisting on specific mention of it in either an agreement or in supplementary letters would result in "a long unpleasant and almost futile controversy".¹ The Foreign Office at this juncture tended to agree with Tyrrell, and feeling that, in any case, the Haifa alignment would eventually be chosen, considered that matters would only be made worse by trying to press for this alignment by means of the supplementary letter. They now viewed the Colonial Office action of November (in drafting the letter specifically mentioning Haifa) as a mistake² - a feeling shared by Cadman, who "deplored... the mistake he made in allowing himself to be persuaded by the Colonial Office to act against his better judgement".³ Nevertheless, it was

1. Tyrrell (Paris) to Foreign Office, January 7th 1929.
FO 371/13760/62/111.

Tyrrell felt that the French Government was "primarily actuated by the desire to safeguard themselves vis-à-vis their own public opinion", and did not really expect to prevent a Haifa alignment being chosen by the T.P.C. (though they obviously were prepared to try to prevent it!)

2. Minute by Oliphant, January 10th 1929 and Oliphant to Tyrrell, (Paris) January 15th 1929 FO 371/13760/62/111.

3. Minute by Sir A. Chamberlain, January 11th 1929.
FO 371/13760/62/111.

felt, matters had already gone too far to admit any radical change in policy, which, it was considered, would only serve to complicate the situation. Accordingly, the Foreign Office attempted again to satisfy the French with plausible explanations and half-truths, and thereby dragged themselves even further into the quagmire.

Sir Austen Chamberlain's note of January 12th 1929 to M. de Fleuriau was an attempt to justify the Colonial Office's action in inserting the specific mention of Haifa in the letter telegraphed by Cadman to Baghdad in November. Referring to the fact that, in August 1928, the Iraqi Government had made the granting of an initial extension of time conditional on a survey for a railway line, and that a further extension was conditional on the construction of that line from Baghdad to Haifa, the note stated that the original draft of the letter prepared by the Company to embody its undertaking did not sufficiently guarantee that Iraq's conditions would be fulfilled, and:

His Majesty's Government would not have been justified in urging (Iraq) to accept a form of undertaking which did not comply with (its) requirements. The revised draft of the letter ... was put forward to meet this difficulty. 1.

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1. Chamberlain to Fleuriau, January 12th 1929. FO 371/13030/94/6085. (It will be demonstrated in the next Chapter that no British pressure was needed (or applied) to make Iraq demand a Haifa alignment for the railway and pipeline).

The French did not take long to resume their attack, and they had little difficulty in pointing out the inadequacy of Chamberlain's latest note. In a letter and memorandum of January 24th, from M. Berthelot, the French argued that it was not Iraq which insisted on priority being given to Haifa, but the British Government, and that the modifications to the Company's original letter had therefore been carried out at the instance of that Government. The British note of January 12th 1929 had been received, wrote Berthelot, "avec un pénible surprise," and it still did not answer the French question as to whether or not the British Government had intervened directly with the Turkish Petroleum Company. The French Government therefore formally protested against the British action, and requested that the Turkish Petroleum Company be now left full liberty of action to hold or to withdraw the letter to the Iraq Government.¹

Tyrrell, in Paris, was obviously impressed with the cogency of the French arguments, and, in forwarding Berthelot's aide-memoire to Oliphant at the Foreign Office, he suggested that he (Tyrrell) should try to find some formula with the French

1. Berthelot to Tyrrell, January 24th 1929 and enclosed Aide-Memoire by Berthelot, dated January 23rd 1929.
 FO 371/13760/62/565.
M. Berthelot was General Secretary at the French Foreign Ministry.

- without, however, raising the specific question of the withdrawal of the letter - which would satisfy them that the Turkish Petroleum Company was free to withdraw the letter to Iraq if it so wished, and that the Company had full liberty of action in all other matters. "Otherwise", wrote Tyrrell,

I must warn you seriously ... that the effect is going to be deplorable here. It cannot indeed be said that we did not tell the French Government the truth in our note of January 12th but I do not see that we can disguise the fact that we concealed the truth - and they seem to me to have caught us out. 1.

"Rarely, if ever, did the Colonial Office reach a worse decision than when they brought pressure on Sir J. Cadman", commented Oliphant on reading Tyrrell's letter.² In expressing himself thus, however, Oliphant apparently forgot that Colonial Office pressure had only been applied after the question had been the subject of discussion by all the interested Departments, including the Foreign Office, on November 5th 1928.

The British Government had thus really put itself into difficulties with the French. The efforts of the Colonial Office to ensure that the Turkish Petroleum Company was committed to a Haifa alignment for its pipeline and railway projects had

1. Tyrrell (Paris) to Oliphant, January 30th 1929 ("Personal")
FO 371/13760/62/565.

2. Minute by Oliphant, February 2nd 1929.
FO 371/13760/62/565.

strayed outside the normal limits of British oil policy - which was in general committed to the avoidance of direct interference with the Company's affairs - and had aroused French protests. Then, clumsy Foreign Office attempts to cover up the more damaging aspects of the Colonial Office actions had aggravated the situation and markedly increased Anglo-French tension. The French were rightly suspicious, and on the specific issue of the Cadman letter they had a legitimate grievance against British oil policy.

Both the Colonial Office and the Foreign Office had some share of blame in the situation as it stood in January 1929. They were not the only culprits, however, for Cadman himself was also partially responsible. Furthermore, Cadman's responsibility went beyond the mere fact that he "allow(ed) himself to be persuaded by the Colonial Office to act against his better judgement," ¹ for it was partly on the basis of information supplied by him that the Colonial Office took the line which it did. Cadman had, as we have seen, played down the importance of French objections to the selection of Haifa as terminus, ² and while this does not by any means excuse the Colonial Office their grave miscalculation with regard to the French attitude,

1. See above, p. 315

2. See above, p. 311 (and footnote 2).

it does partly help to explain it.

Wherever the responsibility for the tense state of Anglo-French Middle Eastern oil relations might lie, however, one thing was clear at this juncture - that the situation could not be allowed to deteriorate. Something positive must be done. Exactly what that "something positive" was to become, it transpired, a highly controversial issue among the formulators of the British Government's oil policy.

V. Solution by Compromise

The key to the situation in which the British Government found itself as a result of the French attack on its pipeline policy was, in the Foreign Office view, the attitude of the Iraq Government, and on this score serious doubts now began to be entertained. At the time, negotiations between Britain

and Iraq on new Military and Financial Agreements were proving troublesome, matters being made worse by the fact that the Iraqi Cabinet members were only carrying on temporarily, having resigned

1. earlier. Seymour (a Secretary in the Foreign Office) voiced his fears in a minute of February 1st 1929:- "It is of course possible that the Iraqi Government, in view of their present difficulties with His Majesty's Government, may wish to let us down on this railway question".
2.

In a letter to the Colonial Office, dated February 6th 1929, the Foreign Office suggested that Dobbs be instructed to find out whether or not the Iraqi Government wished to secure the Haifa alignment for the railway. If the British Government still intended to try to get the agreement through in the form proposed, however, warned the Foreign Office, "it has now become certain that this can only be done in the face of the strongest possible opposition, which will be carried into other fields". The best course, the Foreign Office felt, was to seek some compromise with the French, (on the lines

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1. In 1927 a new Anglo-Iraqi Treaty was concluded, supposedly as an advance on the previous treaties (1922 and 1926), actually a disappointment to the Iraqis, who had expected more autonomy. In view of the progress made by Iraq, however, it was announced that Iraq would be put forward for admission to the League in 1932. Meantime (following Iraqi pressure) the Colonial Office agreed to discuss amendment of the Military and Financial Agreements between Britain and Iraq. The resultant discussions were extremely difficult in 1928 and 1929. (Ireland, op. cit., pp.406-412).
 2. Minute by Seymour, February 1st 1929. FO 371/13760/62/565.

suggested by Tyrrell) especially since the Americans would most likely side with them (the French) ^{1.} and since, in any case, the letter in dispute did not of itself ensure a Haifa alignment. ^{2.}

The Colonial Office reply of February 18th, however, was rigid and uncompromising. It began by casting doubt on the necessity for asking Dobbs to find out the Iraqi attitude, asserting that the Colonial Office already had ample evidence of this, and enclosing copies of this evidence (some of which did seem to indicate that Iraq was keen on a Haifa alignment). ^{3.}

1. The Foreign Office had duly noted a significant postscript written by Berthelot on his letter of January 24th to Tyrrell:-
"Faut-il vraiment nous appuyer sur le groupe americain dans ces discussions?".
 2. Foreign Office to Colonial Office, February 6th 1929.
FO 371/13760/62/565.
 3. Of the 7 documents enclosed as evidence, 5 were telegrams from Dobbs in Baghdad. None of these could in themselves be considered as proof that Iraq felt more than a mere preference for Haifa. The other two documents, translations of communications from the Iraqi Director on the T.P.C. Board to the Iraq Government, however, could be considered as good evidence of Iraq's desire definitely to secure Haifa as the terminus of the railway:-
 - (a) Telegram dated November 1st 1928. The Iraqi Director at a T.P.C. Board Meeting "pointed out clearly that Iraq prefer the Haifa line for several reasons".
 - (b) Letter dated November 29th 1928. The Iraqi Director at a T.P.C. Board Meeting objected to a French statement that Iraqi preference for Haifa was not on their own initiative, but the result of British persuasion. He pointed out that "the port of Haifa was more convenient for Iraq from several aspects, the most important of which was the political aspect, as the Iraq (sic) will have in Haifa a safe outlet not exposed to threat from the north."
- (Enclosures in Colonial Office to Foreign Office, February 18th 1929. FO 371/13760/62/865.)

As for the letter to Iraq about which the French were concerned, the Colonial Office stated that at the time that it was drafted they had felt that any less definite form "would have failed to satisfy the Iraq Government".¹

The Colonial Office letter continued with a passage which, perhaps deliberately, wholly misconstrued the Foreign Office attitude:

If Mr. Amery rightly appreciates the course of action advocated in your letter, it would seem that a definite surrender to the French Government's views is contemplated, possibly involving political action vis-à-vis the Iraq Government to induce them to abandon their demand for a survey of the Baghdad-Haifa route in return for the extension desired by the Turkish Petroleum Company²

Then, after stating that, in the Colonial Office view, British and French interests on the pipeline and railway were diametrically opposed (a statement only partially true), the letter went on: "The difference is a fundamental one, and one which, in Mr. Amery's opinion, must at some stage lead to a dispute with the French Government"; consequently it was better to make a stand now, as if the British Government gave way now it would inevitably

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1. A pencilled "?" was written here on the Colonial Office letter, obviously by someone in the Foreign Office.
 2. Williams, in the Colonial Office, had minuted four days before the Colonial Office letter was sent:- "I think that it is important that we should make our letter to the FO (sic) as strong as possible at this stage"
(Colonial Office, Minute by Williams, February 14th 1929.
CO 730/146. file 68354, Part I "A".)

have to make a stand later on when conditions might be less favourable.

The alternatives before His Majesty's Government thus seem to be either to abandon the idea of securing the adoption of Haifa as the Mediterranean terminal of the pipeline or to face now and overcome strong opposition on the part of the French Government....

The Colonial Office stated that this was a Cabinet decision, but suggested that the matter be first considered by the Committee of Imperial Defence. ¹.

The views of the Admiralty at this juncture are of interest. The minutes recorded after receipt of copies of the Colonial Office-Foreign Office exchange of letters reveal strong feelings in favour of the Colonial Office attitude. In the view of one member of the Admiralty:

The Foreign Office letter shows a strange lack of vision. Surely they should be able to realise the advantages of every kind that would accompany the debouchment of the railway and pipeline at Haifa and the corresponding loss if they reach a Syrian port owing to a weak surrender to French interests now.... ².

The minute also highlighted an important factor motivating the desire for a firm stand - the British (and Iraq) Government's

1. Colonial Office to Foreign Office, February 18th 1929.
FO 371/13760/62/865.

(Note that the eventual solution to the Anglo-French pipeline problem, bifurcation (see Chapter 11), does not seem to have been considered - possibly because such a solution was deemed too costly).

2. "The safety of the Anglo-Persian oilfields and the lines of communication to India, to say nothing of the prosperity of Palestine, are amongst the assets to be included", continued the minute. (Admiralty, Minute by (?) (Illegible) February 22nd 1929. ADM 116/2692. MO475/29.)

desire to avoid financial commitment, coupled with the inherent weakness resulting from the fact that "on purely economic grounds there is nothing to be said for the Haifa project, and the Company, if left to itself, must opt for Syria".¹

It was not the Foreign Office, however, which suffered from any "strange lack of vision" on this question. Rather was it the Colonial Office which suffered from a want of clarity of vision in that they refused to see the weakness of their case on the specific issue which the French Government repeatedly stressed as important - the modification by Cadman, in order to secure British Government support, of the letter to Iraq. Moreover, both the Admiralty and the Colonial Office misconstrued the whole line of argument of the Foreign Office in choosing to believe that the Foreign Office advocated any surrender to the French on any issue but that of the letter to Iraq, and even on that point the Foreign Office had not specifically advocated withdrawal. The Foreign Office still wanted to secure a Haifa alignment (although they were not fully clear at this stage exactly how this was to be achieved), but not at the cost of a severe worsening of Anglo-French relations.

The disputes on policy continued, and on March 13th 1929 Amery raised the matter in the Cabinet². The issues were

1. Ibid.

2. Cabinet Minutes, March 13th 1929. CAB 23/60. 11(29)7.

discussed at length on March 20th, but the final outcome was a victory for the Foreign Office in that the Cabinet repudiated the earlier Colonial Office view that a rigid stand on the whole question should be taken, and the decision arrived at embodied the Foreign Office suggestion that some direct approach to the French should be made. It was to be made clear that the Turkish Petroleum Company was free either to maintain or to withdraw the letter in dispute, but that the British Government would not press Iraq either to maintain or to withdraw the condition to which the French objected (that is, the stipulation of Haifa as terminus). Tyrrell was to emphasise to the French that

His Majesty's Government does not conceal its desire for the adoption of Haifa as the terminus of a pipeline and railway, just as the French Government is known to prefer a Syrian port, (1) and that they reserve their full right to promote it by such means as the complete or partial construction, a guarantee of interest or subsidy of a railway and similar methods. 2.

On April 30th 1929 Neville Henderson (Minister Plenipotentiary in Paris), acting in place of Tyrrell (on leave in London), handed to M. Berthelot a memorandum on the pipeline and railway question, thereby implementing the decision arrived

1. The Foreign Office had not failed to note that the French Government must have put pressure on the French directors in the T.P.C., since they (the directors) had reportedly been unconcerned about Haifa being the pipeline terminus (before the Anglo-French dispute blew up).
See Chamberlain to Tyrrell, March 26th 1929. FO 371/13761/62/1487.
2. Cabinet Minutes, March 20th 1929. CAB 23/60. 12(29)5.

at by the Cabinet on March 20th.¹ M. Berthelot, in replying later to this communication, accepted the British Government's assurances regarding the Turkish Petroleum Company's freedom of action, but, he stated, the French Government reserved the right, as did the British, to promote the passage of the pipeline and railway through its own mandated territory.²

M. Berthelot's reply closed the question officially, as far as the immediate issues were concerned. However, there was now to be an important difference in the situation for the British Government, due directly to the Anglo-French controversy over Cadman's letter of November 1928. The Colonial Office's attempt to circumvent French objections to Haifa as pipeline terminus, and Foreign Office efforts to cover this up, had resulted in firstly a marked rise in tension in Anglo-French relations as concerned the Turkish Petroleum Company, and then in internal disputes on policy among the British Government Departments themselves. The issue of whether or not the British Government ought to stand up to the French and try to secure, without compromise, a Haifa alignment for the pipeline had been raised, but then reason had prevailed when the Cabinet

1. Henderson to Berthelot, April 29th (and enclosure) and Henderson (Paris) to Chamberlain, May 1st 1929.
FO 371/13761/62/2217.

2. Berthelot to Tyrrell, May 31st 1929.
FO 371/13762/62/2844.

had decided that an effort to placate the French should be made. This, however, had involved giving what amounted to a pledge not to interfere on either side in the pipeline discussions - and now any deviation from this was more than ever likely to arouse French hostility.

To some extent, then, British policy was to be hampered and subject to inhibition as the Pipeline Controversy entered its second phase in May 1929. Just what the consequences of this were to be will be seen in the next chapter.

CHAPTER 11

THE PIPELINE CONTROVERSY AND THE REVISED CONCESSION OF 1931I. The Iraq Government and the Turkish Petroleum Company's
Revision Proposals.

During the time that the Anglo-French controversy had been raging, political difficulties in Iraq (unconnected with the oil question) ¹ had prevented any progress being made on the concession proposals submitted by the Turkish Petroleum Company (hereafter to be referred to as the Iraq Petroleum Company) ² in the autumn of 1928. ³ Early in May 1929, however, the Iraq Government began once again to consider the matter.

On May 16th the Colonial Office learned that the Iraq Government had asked the Company, as a condition for signature of the proposed extension to the time limit for the selection of its plots, to grant a loan of £1,000,000. Apparently, also,

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1. As noted earlier, the Anglo-Iraqi discussions on new Military and Financial Agreements were difficult. (See above).
 2. The Turkish Petroleum Company became known as the Iraq Petroleum Company from June 8th 1929 (Hurewitz, op.cit., Vol. II, p.131). The new name will be used throughout this chapter, even where reference is made to it before June 8th 1929.
 3. See previous Chapter. (The I.P.C. had earlier been given extensions to the time limit for selection of plots up to June 10th 1929).

the Iraq Government was "not disposed to press for delivery of (the) supplementary letter".^{1.} In accordance with his instructions, the Acting High Commissioner had proffered no advice.^{2.} It seemed, therefore, that Iraq was not prepared to press for Haifa as the pipeline and railway terminal - and the British Government, as a result of the Anglo-French dispute, could not do anything about it.

At the end of July 1929, following an Iraqi suggestion that the Iraq Petroleum Company submit proposals for re-opening negotiations "on the basis of a revised agreement", Cadman saw Ja'Far El Askeri, the Iraqi Minister in London, and put forward broad proposals for the revision of the concession, involving the grant to the Company of a larger defined area, the remainder to be disposed of by Iraq for its sole benefit.^{3.}

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1. (That is, Cadman's letter of November 1928, which had caused all the trouble. See previous Chapter).
 2. Acting High Commissioner for Iraq (Baghdad) to Colonial Office, May 16th 1929. FO 371/13761/62/2576.
(The Foreign Office had insisted that the Colonial Office should instruct the British representative in Baghdad to refrain from advising Iraq on the pipeline and railway issues - see FO 371/13761/62/2474.)
 3. Memo by Petroleum Department on the Iraq Petroleum Company: Review of Negotiations, March 20th 1930.
ADM 116/2752. MO1012/30.
Ja'Far El Askeri (Iraqi Minister in London) to Shuckburgh (Colonial Office) August 1st 1929. FO 371/13762/62/4023.

Delays ensued, however, so that it was not until the end of September that the Iraqi Cabinet considered these proposals. Meanwhile, the B.O.D. Company had been attacking on all fronts. It had been known for some time that the B.O.D. Company was interested in securing Italian support for its claims, while for their part the Italians had long coveted some share in Iraqi oil. Negotiations to give the Italians a 40% participation had therefore been under way between the B.O.D. Company and the Italian Government, and these were soon to be successfully concluded. The B.O.D. Company was intent on submitting its case - that the Iraq Petroleum Company's concession had lapsed, and that therefore the B.O.D. Company was entitled to be considered for a concession in Mosul and Baghdad - to the Permanent Mandates Commission, and looked for strong Italian support at Geneva. ^{1.}

In addition to this move, the B.O.D. Company's representative, Stanley, was by no means inactive in Iraq. He busied himself sending "open letters" to the Iraqi Prime Minister and generally publicising his Company's claims, pointing out how useful B.O.D. Company money would be to Iraq. ^{2.} In the Iraqi

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1. Acting High Commissioner for Iraq (Baghdad) to Colonial Office, March 11th 1929. FO 371/13761/62/1331.
B.O.D. Company to Secretary General of the League of Nations, May 27th 1929. FO 371/13762/62/2836.
 See also FO 371/13761/62/2582. FO 371/13762/62/2946, 3100.
 2. Acting High Commissioner for Iraq (Baghdad) to Colonial Office, May 30th 1929. FO 371/13762/62/2786.
Extract from Economic Report No. 136 (parag. 1161) June 1929.
 FO 371/13762/62/3476.

Parliament there was now a strong movement towards the idea of leaving the Iraq Petroleum Company's concession as it was and enforcing its provisions, or, if the concession must be modified, then it was felt that Iraq ought to demand as much as possible in return. ¹.

Possibly in consequence of this opposition, when on October 6th the Iraq Council of Ministers met to consider the Iraq Petroleum Company's application for an extension to the time limit in which the Company was to select its 24 plots, the Company's application was refused, and it was ruled that the Company must select its plots by November 21st 1929 (later extended to November 28th). As to the proposed concession modifications, the Council stated that these must be put in writing if the Company wished to go further with them. ².

The raising of the question of a substantial modification of the 1925 Concession had given rise in British Government circles to much pondering and discussion on what was involved as regards the "Open Door" provisions. Although the Colonial Office held that the only international obligation Iraq was under with regard to this was to see that Article 11 of the

1. Minister of Finance to Prime Minister of Iraq, September 30th 1929 (in Economic Report No. 144). FO 371/13763/62/5620.

2. Acting High Commissioner for Iraq (Baghdad) to Colonial Office. FO 371/13763/62/5245.

Anglo-Iraqi Treaty of 1922 was not contravened,^{1.} the Foreign Office was not convinced that this view covered all the aspects of the case, and expressed anxiety about possible international repercussions if the Iraq Petroleum Company were allowed to get the whole of the Mosul and Baghdad vilayets.^{2.}

In connection with this question, Oliphant asked Cadman to call at the Foreign Office. Cadman then demonstrated how easily the Iraq Petroleum Company could obtain any plot it wanted at the auctions (should it be forced to choose its plots and allow those auctions to proceed), which would thereby arouse complaints that the so-called "Open Door" provision was a sham anyway. According to Cadman, it was to meet this difficulty that he had got his Board to agree to a proposal that Iraq be asked to grant to the Company outright an area equal to approximately ten per cent of the area of the Mosul and Baghdad vilayets, the rest to be disposed of by the Iraq Government as it thought fit.^{3.} In view of this, the Foreign Office felt that

1. This Article provided that there should be no discrimination against the nationals of any state (League members, or states covered by certain treaties). (Text: Hurewitz, op.cit., Vol.II, p.113.).

2. Colonial Office to Foreign Office, September 27th 1929, and Foreign Office to Colonial Office, November 2nd 1929.
FO 371/13762/62/4962.

3. Minute by Steel, October 16th 1929. FO 371/13762/62/4962.
(See also Copy of a minute by Sir J.Shuckburgh (n.d.) FO371/13763/62/5620.)
Apart from the obvious fact that the concession area now proposed greatly exceeded the area awarded under the 1925 Concession, it is not easy to see any other likely motives of the I.P.C. for wishing to revise the concession. Even a comparison of the area now demanded (about 10,000 square miles) against the 1925 Concession area (24 x 8 square miles) is not very meaningful, since, as Cadman pointed out, the I.P.C. Groups could get any area it wanted at the auctions. (Here is one of the many queries to which access to Oil Company records, had it been granted, could probably have furnished an answer).

Cadman's proposals could be defended, should the necessity arise, before the Permanent Mandates Commission, and that the illusory nature of Article 6 (of the 1925 Concession) could be demonstrated to that Commission as part of this defence. ^{1.}

On October 24th the Iraq Petroleum Company put its detailed proposals for a revised concession to the Iraq Government, the main features of which were as follows. The procedure outlined in Articles 5 and 6 of the 1925 Concession was to be abolished; the Company was to surrender 88% of its present area, and to retain 12% (which equalled approximately 10,000 square miles), the Company selecting this area within one week of the signature of the agreement. The Company was to pay an annual dead rent of £100,000, which was to be deducted from future royalties, drilling obligations were to be increased, and construction of a pipeline was to be commenced not later than March 14th 1932 (no terminus was specified). ^{2.}

On November 8th, after discussions at an inter-Departmental conference, the Colonial Office instructed the High Commissioner in Baghdad to inform the Iraq Government that His Majesty's Government considered the Iraq Petroleum Company's proposals to be

1. Foreign Office to Colonial Office, November 2nd 1929.
FO 371/13762/62/4962.

2. Shuckburgh to Monteagle, October 31st 1929.
FO 371/13763/62/5620.

generally advantageous to Iraq (although reserving opinion as to details). The High Commissioner was to adopt a benevolent attitude to the negotiations, while not interfering in details, and, the telegram stressed, "it is specially important that you should hold aloof from any discussions concerning alignment of pipeline".^{1.}

By this time, however, the Iraq Government had already come to the conclusion that the Company's proposals were unsatisfactory,^{2.} and, moreover, although still willing to consider any further proposals for the modification of the concession, that Government was determined that the Company should choose its plots by November 28th.^{3.} This was made clear to the Company, which, nevertheless, seemed very reluctant to comply with the Iraqi demands. Finally, however, on November 28th "the latest permissible date, and at a late hour"^{4.}, the Company gave to the Iraq Government formal

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1. Colonial Office to High Commissioner for Iraq (Baghdad). November 8th 1929. FO 371/13763/62/5620.
 2. The reasons were that no railway was mentioned in the Company's proposals; there was no mention of any change in local oil prices; the drilling obligations proposed were unsatisfactory; Iraq objected to the proposal that dead rent was to be deducted from future royalties; in addition, although the pipeline starting date was satisfactory, no completion date had been fixed. (Ministry of Communication and Works to Secretary, Council of Ministers, November 4th 1929 (in Iraq Economic Report No.147). FO 371/13763/62/6452.
 3. Acting High Commissioner for Iraq (Baghdad) to Colonial Office, November 27th 1929. FO 371/13763/62/6195.
 4. Extract from Iraq Economic Report No.148. November 29th 1929 FO 371/13763/62/6801.

notification that it had selected its 24 plots, the Company adding that this was on the understanding that future negotiations would not thereby be prejudiced. It is worthy of note that of the 24 areas^{1.} selected, 13 were in Kirkuk.

Iraq had won a victory of sorts, it seemed, although this did not really get things much further forward. Out of all the arguments and differences had emerged a new plan - if, indeed, things had not been deliberately so steered by the Iraq Petroleum Company - whereby the 1925 Concession would be considerably modified. It was in the battle over this new plan, in which Iraq sought to gain a greater benefit from the exploitation of her oil resources than she had hitherto obtained, that the real victory would have to be won.

The Iraq Petroleum Company had once again courted trouble, and had only just managed to draw back in time. Although defeated in its aims to get a prolonged extension, and forced instead to choose its 24 plots, it had by no means sustained a real defeat. Indeed, if in fact it had been the Company's intention all along to secure modification of the 1925 concession terms, it had won a victory, for Iraq had now definitely accepted the idea.

The B.O.D. Company had suffered a defeat. Although it had immensely complicated the whole situation for its rival, and was to some extent responsible for ensuring that that rival did not get its

1. Memo by Petroleum Department on the Iraq Petroleum Company: Review of Negotiations, March 20th 1930. ADM 116/2752. MO1012/30.

desired extension, the auctions at which it had hoped to bid were still as remote and unlikely to occur as ever. It had, however, now been strengthened by the introduction of an Italian element (since August 1929) ¹. which enthusiastically proclaimed its ambitions and hopes, and ensured at least some support for the B.O.D. Company's attempts to influence the Permanent Mandates Commission in its favour. ².

II. The pipeline: British wavering and Iraqi firmness.

During the first half of 1929 the French had been busy in Syria, with two experts from Paris studying the question of enlarging Beirut port, and the problems involved in the proposed construction of a Homs-Palmyra railway. Other considerations than the pipeline were no doubt involved in this activity, but

1. The Italian company (the Azienda Generale Italiani Petroli) acquired 40% of the B.O.D. Company shares. (B.O.D. Company to Foreign Office, August 22nd 1929. FO 371/13762/62/4190. See also FO 371/13762/62/4225.)
2. See Extract and Translation from "Popolo di Roma", November 24th 1929. FO 371/13763/62/6740.
The B.O.D. Company complaint was still awaiting consideration by the League. Early in December 1929 the British Government furnished the Permanent Mandates Commission with its comments on this complaint. See FO 371/13763/62/6260, and also FO 371/14512/51/3704.
(The Foreign Office does not seem to have been unduly perturbed either by reference of the B.O.D. complaint to the League or by the involvement of Italy. These matters were seen more as a nuisance than a real threat at this stage).

it seems probable that these French actions were motivated to some extent by the desire to persuade the Iraq Petroleum Company to adopt a Syrian alignment for the pipeline. ¹.

The British, too, had not lost interest in the project. In its Third Annual Report, dated April 26th 1929, the Oil Board² concluded that it was "of first importance to the Empire in a maritime war that the oil pipeline from Iraq should have a terminal at Haifa". ³. Amery, in support of this conclusion, further stressed that

it was becoming an urgent matter that some action should be taken to ensure that the terminal of the pipeline should be at Haifa... (and) therefore ... that a decision should be reached by His Majesty's Government regarding the construction of a railway from Haifa to Baghdad. ⁴.

1. Lord Lloyd (Cairo) to Sir R. Lindsay, April 20th 1929
FO 371/13761/62/2197.

2. For details of this body, see above, Chapter 2.

3. Third Annual Report of the Oil Board, April 26th 1929.
CAB 24/203. CP. 142 (29) page 11.
The use of the phrase "a terminal at Haifa" was not significant, since the question of there being two terminals was not given serious consideration at this time.

4. Minutes of the Committee of Imperial Defence, May 2nd 1929.
CAB 2/5. 242nd Meeting (4).

The Cabinet, however, decided that the question would have to await developments in the Iraq-Company negotiations, and, equally imponderable, the outcome of the British General Election, then imminent. ^{1.}

The coming of the second Labour Government to power after the election led inevitably to some further investigation and reappraisal of the pipeline question. ^{2.} A Cabinet Committee was appointed which, in its report, considered that the idea of British Government assistance in the development of a railway from Iraq was "worthy of closer investigation". ^{3.} Later, however, a further Committee met to consider the situation anew after reported French efforts to influence the Iraq Petroleum Company to choose a Syrian alignment. After hearing from Cadman that, as French and American interests in the Iraq Petroleum Company

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1. Extract from Cabinet Minutes, May 9th 1929. FO 371/13761/62/2500. (Polling in the General Election took place on May 30th.)
 2. The Secretary of State for Colonial Affairs (Lord Passfield) prepared an interesting memorandum showing (inter alia) that British expenditure on the administration and defence of Iraq fell from £32,000,000 in the year 1920-21 to only £2,000,000 in 1927-28. Lord Passfield stressed the benefits and advantages of Britain remaining in Iraq (prestige, League obligations, maintenance of military and civil air routes etc.) and, with regard to oil, stated: "So long as we remain in Iraq we can, in the last resort at least, control this important source of supply." (Memo by Secretary of State for the Colonies, "Our Position in Iraq", July 8th 1929. CAB 24/205. CP.214.)
 3. Report by Cabinet Committee on the Baghdad-Haifa Railway and/or Pipeline, September 11th 1929. CAB 24/205. CP 247(29):

were united in a desire for a Syrian alignment, it was extremely unlikely that the Iraq Petroleum Company as a whole would choose Haifa as terminus,^{1.} the Committee produced its Report.

The Cabinet Committee Report, dated May 1st 1930, cast doubt on the much aired strategic argument for ensuring that the pipeline should terminate at Haifa. The Haifa alignment would necessarily pass close to French-controlled territory, and thus, the Report argued, in the event of a war with France the pipeline was very liable to be cut by French forces. Accordingly, there was no guarantee of oil supplies being obtained even if Haifa were the terminus. As for any suggestion that the British Government should seek to influence the alignment by assisting financially in railway construction, the Report gave due weight to the Chancellor of the Exchequer's view that

in no circumstances should His Majesty's Government spend or guarantee a shilling in connection with a railway from Haifa to Baghdad on the chance of getting the Iraq Petroleum Company to bring its pipeline to Haifa rather than Tripoli. 2.

The Report's recommendations were, firstly, that a Syrian terminal to the Iraq-Mediterranean pipeline and railway should be accepted,

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1. Cabinet Minutes, March 26th 1930 CAB 23/63. 17(30)3.
Minutes of the Second Meeting of the Cabinet Committee on the Baghdad-Haifa Railway and Pipeline, April 1st 1930. CAB 27/419.
 2. Report of the Committee on the Baghdad-Haifa Railway and Pipeline, May 1st 1930 CAB 24/211. CP. 136(30).

and secondly, that negotiations should be opened with the French Government as early as possible "with the object of obtaining the requirements desired by His Majesty's Government and the Government of Iraq" ¹. should the terminal be in Syria. The Cabinet accepted the Report on May 7th, despite strong Admiralty opposition, and the High Commissioner in Iraq was instructed to find out if Iraq would agree to the procedure which the British Government proposed to adopt. ².

1. Ibid.

The British requirements were investigated by a Sub-Committee of the main Cabinet Committee, and were stated to be (1) That France would allow exports of oil to British ports "in time of peace, or when France is a neutral, or an ally". (2) That France would allow the passage of British troops to be carried on any Iraq-Mediterranean railway in time of war (subject to such a provision being compatible with international law). Other points concerned the placing of orders for railway and pipeline material, the connection of Haifa to Tripoli by rail, etc. (Report of the Inter-Departmental Sub Committee, May 1930. CAB 24/211 CP. 141(30).)

2. Cabinet Minutes, May 7th 1930 CAB 23/64. 25(30)4.
Colonial Office to High Commissioner in Iraq (Baghdad).
May 7th 1930 FO 371/14511/51/2408.

The British Government thus had decided on what was virtually a policy of surrender to the French. Regret at this surrender was^{1.} to some extent shared by all British officials, and indeed was bitterly resented in the Colonial Office and the Service Departments, but it had been felt by the Cabinet to be inevitable in the circumstances. The only alternatives seemed to be either to lay out a large sum of money to facilitate construction of a railway to Haifa, and thus induce the Iraq Petroleum Company to build the pipeline alongside that railway, or to use political pressure either to induce the Company to go against its own economic interests in choosing the more costly Haifa alignment or to persuade Iraq to stipulate the Haifa alignment as a sine qua non for revision of the concession. The British Government was not prepared to finance a railway, and, tied as it was by its pledge to France in 1929, it could not even consider applying pressure either to the Company or to Iraq, even had it^{2.} deemed such pressure likely to be successful - unless it also was prepared to see a considerable worsening in the state of Anglo-French

1. Part of the Cabinet minutes of May 7th reads:

"While general regret was expressed that the facts set forth in the Report of the Cabinet Committee were adverse to the establishment of the terminus at Haifa, the Cabinet agreed...that there was no alternative but to accept the policy proposed..."
(Cabinet Minutes, May 7th 1930 CAB 23/64. 25(30)4.)

2. The British Government could not have expected quite the same cooperation from Cadman as it had been able to rely on in 1928. The Colonial Office was not in any case disposed to trust Cadman as fully as it had once done.

relations in the Middle East. With Iraq seeking admission to the League of Nations in 1932,^{1.} an irreparable breach between Britain and France on such an issue was particularly to be avoided.^{2.}

This "policy of surrender" was, in the event, to be shortlived. The key to the whole question, even before the Anglo-French contretemps over Cadman's letter of November 1928, had always been the attitude of the Iraq Government. While the Foreign Office had had doubts as to what that attitude really was (as has been seen in Chapter 10), the Colonial Office had never wavered in its belief that Iraq definitely wanted a Haifa alignment for the railway and pipeline. Now the accuracy of the Colonial Office's assessment was to be made very plain indeed.

On May 13th 1930 the Colonial Office received a telegram from the High Commissioner in Iraq which told of Iraq's determination not to allow the pipeline to terminate in Syria; the Iraq Government was, it transpired, prepared if necessary to break off negotiations with the Iraq Petroleum Company on this point.^{3.} This news was greeted with great joy in Admiralty circles, and the Colonial Office, also

1. On November 4th 1929 the League of Nations had received a communication from the British Government stating that it intended to recommend Iraq for admission to the League in 1932. (Ireland, op. cit., p. 417).
2. Unless the B.O.D. Company obtained some satisfaction, it could also be expected that Italy would make trouble for Iraq with the League. (The Italian company, A.G.I.P., had a 40% share in the B.O.D. Company).
3. High Commissioner in Iraq (Baghdad) to Secretary of State for Colonial Affairs, May 13th 1930. CAB 27/436. 10C(30)9.

elated, was not slow to take advantage of a development which possibly they had at least half expected. The Colonial Office immediately put forward a memorandum to the Cabinet, suggesting that consideration be given to the idea of dropping all support for the Iraq Petroleum Company and advising Iraq to grant to that Company only half the concession area it now asked for in the revised concession proposals. This action would not necessarily cause the Company to change its mind about the alignment, the memo stated, but at least it would prevent the Company from getting a monopoly over the oil resources of Iraq, and thus potentially prolific oil-bearing areas would still be open for development by British interests.^{1.}

On May 21st the Cabinet discussed the new situation which the firm attitude of Iraq had produced in the pipeline question. It was then decided that the Cabinet Committee of March should re-examine the whole matter.^{2.}

At the first meeting of the reconstituted Cabinet Committee (now known as the "Cabinet Committee on Iraq Oil") there was a divergence of opinion on the attitude to be adopted to the Iraq Petroleum Company in general, and to Sir John Cadman in particular. Some members showed a marked distrust of Cadman, and were opposed to him being furnished

1. Admiralty Minutes, May 16th and 19th 1930 ADM 116/2752.
M01708/30.

Memo by Secretary of State for the Colonies, May 16th 1930.
(and enclosures) CAB 24/212. CP. 164(30).

An enclosed memo by the Colonial Office, dated May 5th 1930, reads a little like "special pleading" for the B.O.D. Company - but whether or not this can be regarded as significant is a matter for conjecture.

2. Cabinet Minutes, May 21st 1930 CAB 23/64. 28(30)6.

with any further confidential information, in particular as concerned the new clear attitude of the Iraq Government. When he appeared before them on June 4th, however, Cadman succeeded in restoring the Committee's confidence in him, partly because he was able to play on party animosities and attribute his own now difficult position to the actions of the previous Government, which "had made the fatal mistake in insisting upon reference to Haifa". ^{1.}

The Cabinet Committee on Iraq Oil issued an Interim Report on June 20th advocating, in effect, that no action be taken until it was seen how things developed. ^{2.} Meanwhile, the Iraq Government, uninfluenced by British advice on the subject, had prepared a detailed statement of why it preferred Haifa, and it proposed to tell the Iraq Petroleum Company that without the Haifa

1. Minutes of 2nd Meeting of Cabinet Committee on Iraq Oil, June 4th 1930 CAB 27/436.

It is hardly exact, however, to say that most of Cadman's difficulties at this stage were the result of the previous Government's actions; certainly the trouble over the letter of November 1928 increased his difficulties, but to some extent Cadman himself was to blame even for this. He had consistently encouraged British officials in their attitude over the Haifa alignment - as part of his A.P.O.C. policy, no doubt - and had minimised the hostility of the French (when talking to British officials).

2. Interim Report of the Cabinet Committee on Iraq Oil, June 20th 1930 CAB 24/213. CP 209.

alignment no further negotiations were possible (see Note 1 below).¹

As can be seen from the above, British oil policy was still operating on almost a day-to-day basis, without much of the deviousness or overall "grand design" so often attributed to it. A Conservative Government, faced by strong recommendations to action in the pipeline and railway question, had procrastinated, and had then been followed by a Labour Government which, initially, had done the same. Later, however, the Labour Government had reluctantly decided on a "policy of surrender", and resolved not to fight against French opposition to a Haifa alignment (despite internal pressures to do so).² Then, when British policy thus

1. Ibid. (Appendix I)

The principal reasons included (1) The Haifa route would include the longest haul of rail and pipeline within Iraqi territory. (2) Iraq desired that the route "should pass through the territory of her friend" (Transjordan). (3) In the event of Great Britain being at war, Iraq would be automatically involved; a pipeline and railway through French controlled territory might also involve her in any French troubles. (4) Iraq did not want Syria to have a stranglehold on the pipeline and railway route to the Mediterranean. (5) Iraq was anxious to develop trade with Egypt, and the southern was the better route for this, (etc.).

2. Too much should not be inferred from the fact that a Labour Government at one point advocated a "policy of surrender", while the Conservative Government had never done so. In both Governments there were elements advocating a strong stand against the French. It is, however, true that Labour was in general less keen on sanctioning Government expenditure on overseas projects (such as the pipeline and railway projects of the I.P.C.) than were the Conservatives - but the evidence in the Iraq Oil question is insufficient to warrant a conclusion that a Labour Government's oil policy would normally necessarily be different from that of a Conservative Government.

seemed at last to be fairly straightforward, it had once more been swung round by the determination of its protégé, Iraq, to do the very thing which the British Government had shrank from - to stick out for a Haifa alignment. Britain's protégé had, it seemed, become "more pro-British than His Majesty's Government".^{1.} It remained to be seen how much support His Majesty's Government would give it.

III. British policy and the bifurcation proposals.

During July and August 1930 the Iraqi Prime Minister was in London, where he conducted negotiations with Cadman on the basis of a revised agreement. No definite agreement was reached at this stage, however.^{2.} Meanwhile the Foreign Office had to deal with the latest development in the perennial Anglo-French struggle over the pipeline. The French were perturbed at Iraq's determined stand for the Haifa alignment, and viewed it as an attempt by King Feisal, for family reasons, to ensure that the

1. T. Shaw, Secretary of State for War, told a meeting of the Cabinet Committee on Iraq Oil, "It had to be recollected that the attitude of the Iraq Government had been consistently more pro-British than that adopted by His Majesty's Government....." (Minutes of 4th Meeting of the Cabinet Committee on Iraq Oil, February 4th 1931.

CAB 27/436.)

2. Memo by Secretary of State for Colonial Affairs, November 18th 1930. CAB 27/436 10C(30)17.
Note of Discussions with the Iraqi Prime Minister at the Colonial Office, July 15th 1930, FO 371/14512/51/3862.
H.H. Wheatley (London) to Hall (Colonial Office) August 15th 1930 FO 371/14512/51/4485.

pipeline crossed the territory of his brother, Amir Abdullah (that is, Transjordan). ^{1.} In the French view, this was a form of political pressure on the Iraq Petroleum Company and, it was argued, the British Government ought to intervene to prevent this, and was bound to do so by its pledge of April 1929. Otherwise, the French felt, the Iraq Petroleum Company would be made to incur unwarrantable expense in constructing a pipeline along the more costly Haifa route instead of along a Syrian alignment. ^{2.}

The British, however, were not prepared to press Iraq to be neutral in the question, and they argued ^(rightly) that the British pledge of April 1929 was simply a promise to refrain from putting pressure on either Iraq or the Iraq Petroleum Company, and that it did not include any promise to ensure Iraq's neutrality. Iraq was, and ought to be, free to express her preferences and to impose any conditions she desired in return for agreeing to the

1. Amir Abdullah had been recognised as ruler of Transjordan at the Cairo Conference of 1921 (G.E. Kirk, A Short History of the Middle East, London 1948) p.160).
2. Memo by Oliphant, July 28th 1930 FO 371/14512/51/4032.
Memo communicated by French Ambassador, August 14th 1930.
 FO 371/14512/51/4401.

revision of the concession. ^{1.}

The French were at this time highly critical of Cadman and his policy with regard to the pipeline alignment. ^{2.} However, Cadman had now apparently won the support of the American interests, and in mid-October the Iraq Petroleum Company Board approved his latest proposals to be put to Iraq. The main points of these proposals were that, firstly, the Company should get a blanket concession for the whole of the Mosul and Baghdad vilayets east of the River Tigris (an area of approximately 32,000 square miles), in return for certain dead rents, royalties, and an undertaking that the Iraq Petroleum Company would build a pipeline to Haifa by a given date, and a branch line to Tripoli. The Tripoli branch was to be started immediately, but the Haifa branch would possibly have to await the construction of a trans-desert railway. The point of bifurcation of the two lines was not stated, but it was proposed that this should

1. Memos communicated to French Embassy, August 1st 1930, and September 19th 1930. FO 371/14512/51/4032 and 4401.

2. The French were also violently opposed to what they suspected to be the policy of the Anglo-Persian and Anglo-Saxon Companies - that is, deliberately to retard Iraq oil production. The French would have preferred to abandon the attempts to revise the 1925 Concession, and a total breakdown of negotiations might well have served their purpose. (Memo by J.H. Hall, October 9th 1930. FO 371/14513/51/4500.)

1.
depend on technical considerations.

For the first time the idea of there being two pipelines, one to Tripoli and one to Haifa, had assumed concrete form. It had, indeed, often been talked of in the years of discussion on the pipeline

2.
project, but generally it had not been taken up as a serious proposition, and as late as April 1930 Cadman had expressed doubts about the practicability of building a pipeline to each port.

3.
Now the idea of there being two pipelines had come to be accepted by the Company, but not, as one might too readily assume, directly because of the need to compromise between British and French aims, but rather because of the need to compromise between the Company's interests and the political interests of Iraq.

4.
5.
The Company's proposals were communicated to Iraq on October 15th.

1. Ibid. See also Colonial Office to High Commissioner (Baghdad) October 17th 1930. FO 371/14513/51/5665.
2. The idea of pipelines to both a Syrian and a Palestinian port was mooted in French circles at least as early as May 1928. (see FO 371/13029/94/3283 and 3585). In August 1929 Cadman expressed the opinion that a pipeline to a Syrian and a Palestinian port "would very likely be the ultimate solution. (CAB 27/388. Minutes of First Meeting). However, in April 1930 he no longer seemed to favour the idea. (CAB 27/419. Minutes of Second Meeting). See also FO 371/14510/51/5187.
3. Minutes of the Second Meeting of the Cabinet Committee on the Baghdad-Haifa Railway and Pipeline, April 1st 1930. CAB 27/419.
4. This is true, strictly, but of course one might convincingly argue that had the British and the French Governments' aims not been opposed the result might have been different.
5. Cadman to Nuri Pasha, October 15th 1930. FO 371/14513/51/5708.

By the end of the month, however, a serious situation had developed. The Iraq Government was prepared to countenance the Company getting the large concession area for which it asked, but, although the two sides agreed on the figures at which minimum royalty and dead rent should be set, they disagreed on certain provisions regarding them, in particular as to how much of the dead rent should be recoverable from future royalties. On the pipeline question Iraq was highly suspicious of the Company's intentions. In the first place the Iraqis wanted all the oil to go to Haifa, and while to some extent they were prepared to compromise and allow the French share of oil to go to Tripoli, they were definitely determined that in that case the main line should go to Haifa, and that bifurcation should be as far west (within Iraqi territory) as possible. In general the Iraqis felt that the Company's proposals had been drafted ambiguously, and

the document as a whole ha(d), in the eyes of the Iraq Government, the appearance of calculated duplicity; it ha(d) produced a most unfortunate impression upon them.

The Iraqis were exasperated, and, possibly influenced by B.O.D. Company propaganda, they now contemplated not only demanding auctions under the 1925 Concession terms, but they also began to consider the possibility of declaring the whole concession null and void.^{1.}

The policy to be adopted by the British Government was discussed at an inter-Departmental meeting on October 31st, when the great

1. Memo by Secretary of State for Colonial Affairs on the Iraq Oil Negotiations, November 18th 1930 (and Appendix AI, AII, and B)
CAB 27/436. 10C (30)17.

difficulties which would arise with France and the United States, should Iraq proceed to extremes, were noted and discussed. At the meeting the Colonial Office representatives spoke resolutely in favour of a policy of urging Iraq to accept the principle of there being two pipelines; against this the Foreign Office just as resolutely opposed the idea of there being any intervention by His Majesty's Government. The meeting as a whole, however, accepted the Colonial Office view, and as a result a draft telegram, for transmission to the High Commissioner in Iraq, was drawn up by the Colonial Office. ^{1.}

1. Memo by Rendel, October 31st 1930.
FO 371/14513/51/5915.

The Foreign Office would not concur in the sending of this telegram. While not insensible to the value of getting Iraq to compromise with the Iraq Petroleum Company and the French, the Foreign Office felt that it was a bad move tactically for the British Government to interfere. The Foreign Office decried the undertaking given by the previous Government to the French (in April 1929) and felt that it might well have proved disastrous had things turned out differently, but, the Foreign Office argued, now that Iraq had dug in her toes (without being influenced by Britain) and refused to allow the pipeline to debouch at any port but Haifa, the British undertaking not to intervene had become a positive advantage. If the French stuck to their demand for a Syrian alignment they could not get the British Government to put pressure on Iraq to accept such an alignment, since 1. the British Government had promised not to intervene.

In a way this was a curious reversal of the roles played by the Colonial Office and the Foreign Office since November 1928. Whereas earlier the Foreign Office had sought to compromise to avoid trouble with the French, and the Colonial Office had advocated taking a strong line, now, in effect, the Foreign Office was taking the strong line (which by now had become the policy of non- intervention) 2. while the Colonial Office was urging the need to compromise.

1. Foreign Office to Colonial Office, November 12th 1930.

(Appendix "D" to Memo by Secretary of State for Colonial Affairs) CAB 27/436. 10C(30)17.

2. One factor influencing the Foreign Office attitude was the suspicion that the Iraq Petroleum Company might be bluffing in its stand on the pipeline issue.

In the end, after further discussion, the telegram actually sent (on November 21st) was generally on the lines of the Colonial Office draft, with certain modifications made to emphasise the fact that His Majesty's Government was only advising, not pressing, Iraq, in Iraq's own interest, in advocating some form of compromise. On November 25th the High Commissioner reported that he had advised Iraq on the lines set out in the telegram. ¹.

At this stage, then, the British Government was no longer mainly concerned with trying to ensure a Haifa alignment, for that already seemed assured, in view of the Iraqi attitude. Instead, its main problem was to ensure that the struggle over the pipeline alignment, and the questions associated with bifurcation, did not lead to a serious rift between Iraq and the French, and that the Iraq - Company negotiations on the revision of the concession should reach fruition. However, the British Government was to some extent hampered in dealing with this problem. While it was undoubtedly true that, as the Foreign Office argued, the Government's earlier pledge to France not to intervene directly in the Iraq-Company negotiations had now been

1. The final draft of the telegram may be found at CAB 27/436, 10C(30)18. For the High Commissioner's telegram of November 25th see FO 371/14514/51/6427.

turned to that Government's advantage (since Iraq demanded a Haifa alignment), it was also unfortunately true that inability to intervene directly in the negotiations might well allow those negotiations to break down. The British Government could only advise, not press, Iraq to compromise with the French views: the success or failure of Britain's whole oil policy in Iraq thus rested on negotiations over which Britain now had little control.

IV. The revised concession of March 1931.

In Iraq, the Iraq Petroleum Company's negotiator, Skliros, seemed to be making little headway with the resumed negotiations, and by December 1930 the presence of Cadman there seemed imperative.¹ However, Cadman was concerned that negotiations then being carried on with the Governments of Palestine and Transjordan regarding wayleaves for the proposed pipeline should be successfully concluded before he went to Iraq. After a little prompting by the British Government, the Palestine Government eventually signed a pipeline Convention with the Iraq Petroleum Company on January 5th 1931, and Transjordan followed suit on

1. Apparently Skliros's general attitude, and tactless handling of the negotiations, was not helping matters. Also Gulbenkian was reportedly stirring up trouble in Iraq for the I.P.C. He, apparently, supported the French view that it was best to keep to the 1925 Concession. See various communications etc. under the references:- CAB 27/436. 10C(30)19 and 10C(30)23. FO 371/14514/51/6275 and 6958. FO 371/15305/5/1646.

January 11th. Meanwhile, similar negotiations with the Syrian Government were still being pursued. ^{1.}

On January 13th 1931 Cadman arrived in Iraq. The first negotiations were concerned with the concession area, payments to be made by the Company, and cheap oil for Iraq's internal use. After some haggling, agreement was reached on dead rents and certain other matters, but when the pipeline question came up for discussion, negotiations came to a halt over, primarily, the choice of the point of bifurcation. The Iraqis favoured bifurcation at Rutba, but, while the American and Anglo-Dutch Groups in the Iraq Petroleum Company were prepared to accept this on certain conditions, ^{2.} the French were adamant against it, and declared that they would only be prepared to accept bifurcation as far south as Haditha. ^{3.}

On being asked for advice by the High Commissioner in Iraq,

1. For the texts of the Pipeline Conventions see FO 371/15304/5/636. At this time Skliros was having various difficulties in his negotiations with the Syrian authorities. See FO 371/15305/5/79 and 130. (The Syrian and Lebanese Pipeline Conventions were signed some weeks after the Palestinian Convention).
2. Mainly reduction of dead rent.
3. For the relative positions of Rutba and Haditha, see map at page 362 (It will be noted that the Iraq-Syria frontier had not yet been finally delimited. It was, however, sufficiently defined for there to be no confusion in the context of the pipeline question). For the reasons why Iraq did not favour Haditha, see next paragraph below.

the Colonial Office came out in support of Iraq's stand for bifurcation at Rutba, primarily because it was felt that bifurcation at Haditha inevitably meant that the French would construct a railway to Abu Kemal, which in turn would mean the death of the Haifa-Baghdad Railway project. ¹.

Later, however, as the Iraq Petroleum Company refused to accept Rutba as the point of bifurcation, the Colonial Office, worried in case the negotiations broke down completely, and especially concerned that Iraq did not continue to incur French hostility in case this jeopardised her prospects of entry into the League of Nations in 1932, came round to the view that Iraq would be wise after all to accept Haditha as the bifurcation point. A note to this effect was eventually sent, with full Cabinet approval, to the High Commissioner in Iraq. ².

By February 19th a great deal of progress had been made, for the High Commissioner had induced Iraq to accept Haditha as the point of bifurcation, and Cadman had accepted, after initial

1. Colonial Office to High Commissioner in Iraq (Baghdad)
(Telegrams 33, 34, 35 and 36) January 24th 1931
 CAB 27/436. 10C(30)33.
2. Draft Telegram for Despatch to High Commissioner, Iraq
(attached to Report by Iraq Oil Committee, February 5th 1931)
 CAB 24/219. CP.36.
Cabinet Minutes, February 5th 1931. CAB 23/66. 12(31)1.
 (One factor influencing this decision was a report that the French had abandoned their plans for a railway to Abu Kemal - thus removing a potential threat to the Haifa-Baghdad railway proposals).

reluctance, an Iraqi stipulation that both pipelines be completed within six months of each other. However, at this juncture Iraq raised the question of taxation of the Company's external profits (Article 27), and the whole negotiations were once more in jeopardy. ¹.

When Cadman left Iraq on March 12th there was still no final agreement on Article 27. Furthermore, it was by no means certain that the Iraq Petroleum Company Board would accept all the points agreed to in the negotiations, particularly the one concerning pipeline completion dates. A Board Meeting scheduled for March 19th had been called off because the French would not attend but instead "reserv(ed) to themselves the fullest liberty" to criticise Cadman's actions. Cadman thereupon decided

that he was going to give them some actions to criticise, and (he) proposed to authorise Mr. Skliros to sign the agreement as prepared before he left Baghdad. ².

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1. High Commissioner in Iraq (Baghdad) to Colonial Office, February 9th 1931, and Note by Secretaries of Cabinet Committee on Iraq Oil, February 23rd 1931. CAB 27/436. 10C(30)42 and 44. Colonial Office Memo on the History of the Negotiations, March 31st 1931. FO 371/15305/5/1646.
(In the summer of 1930 the Iraqi Prime Minister, Nuri Pasha, had assured the I.P.C. that Iraq would not try to impose a tax on the Company's external profits. However, he was now forced to go back on this assurance, for reasons connected with Iraqi internal politics. He was now demanding that Iraq receive a tax based on the difference between the price of the Company's oil as it came out of the ground and the final selling price).
 2. Colonial Office Memo on the History of the Negotiations since March 18th 1931 (n.d.). FO 371/15305/5/1646.

The Agreement revising the 1925 Concession was actually signed on March 24th. It still had to be ratified, however, and as signature had only been obtained at the cost of the resignation of Muzahim Pachachi, the Minister of Economics and Communications, it could be expected that there would be at least some opposition to its passage through the Iraqi Parliament.^{1.} The Bill was eventually passed, though, by fifty four votes to four, and on May 18th was approved by the Senate.^{2.}

Cadman, too, had his "Parliament" to face. Soon after the Agreement was signed he obviously came under pressure from the Groups, and was forced to appeal to the British Government to press Iraq to extend the six months' interval between completion of the two pipelines to twelve months. The British Government, however, refused to entertain the idea.^{3.}

1. High Commissioner in Iraq (Baghdad) to Colonial Office, March 27th 1931. FO 371/15306/5/1838.

In order to strengthen his hand in Parliament, Nuri Pasha wondered if it would be possible to arrange for a telegram to be sent from the Turks (who, of course, had an interest under the 1926 Treaty) welcoming the new agreement. In London, however, approaches to the Turks on this matter were not deemed to be advisable, since the Turks might regard such approaches as consultation on the question.

2. High Commissioner in Iraq (Baghdad) to Colonial Office, May 18th, 1931. CAB 27/436. IOC(30)55A.
3. Minute, Rendel to Oliphant, April 23rd 1931. FO 371/15306/5/2141/G.

The Agreement revising the 1925 Concession terms completely altered the basis on which the earlier convention had been framed.¹ Whereas under Articles 3, 5 and 6 of the 1925 Concession the Company had been obliged to select 24 plots, each of an area of eight square miles, and to surrender the rest in order that the remaining area might

1. Agreement made the Twenty fourth day of March, 1931, between His Excellency Nuri Pasha Said, Prime Minister, acting on behalf of the Government of 'Iraq ...and John Skliros acting on behalf of 'Iraq Petroleum Company. FO 371/15307/5/3183.

be auctioned, under the new Agreement the Company retained the sole right to exploit "all lands situated in the vilayets of Baghdad and Mosul which are bounded by the east bank of the River Tigris by the 'Iraq-Turkish frontier and by the 'Iraq-Persian frontier" (excluding, of course, the "Transferred Territories" area worked by the Anglo-Persian Oil Company)¹. This was an area of approximately 32,000 square miles.² The remainder of Iraq was left free for Iraq to dispose of as she thought fit.

In place of the somewhat vague references to pipeline construction in Articles 5 and 6 of the 1925 Concession, an entirely new article now laid down in precise form the conditions relating to such construction. The pipeline was to be of a total capacity of not less than 3,000,000 tons per year. It was to follow an alignment:

from any point in the defined area to any point on the Euphrates between Haditha and Hit and thence one trunk pipeline system shall be constructed by way of Rutbah or the vicinity thereof to a terminal in the Bay of Acre and from such point on the Euphrates the Company shall be free to construct another trunk pipeline system to any other terminal on the Mediterranean.

At least 50 per cent of the oil was to go to the Bay of Acre until at least four million tons per annum was put through that terminal.

1. Clause 3 of the Agreement (i.e. new "Article 3").
See Map at page 362.

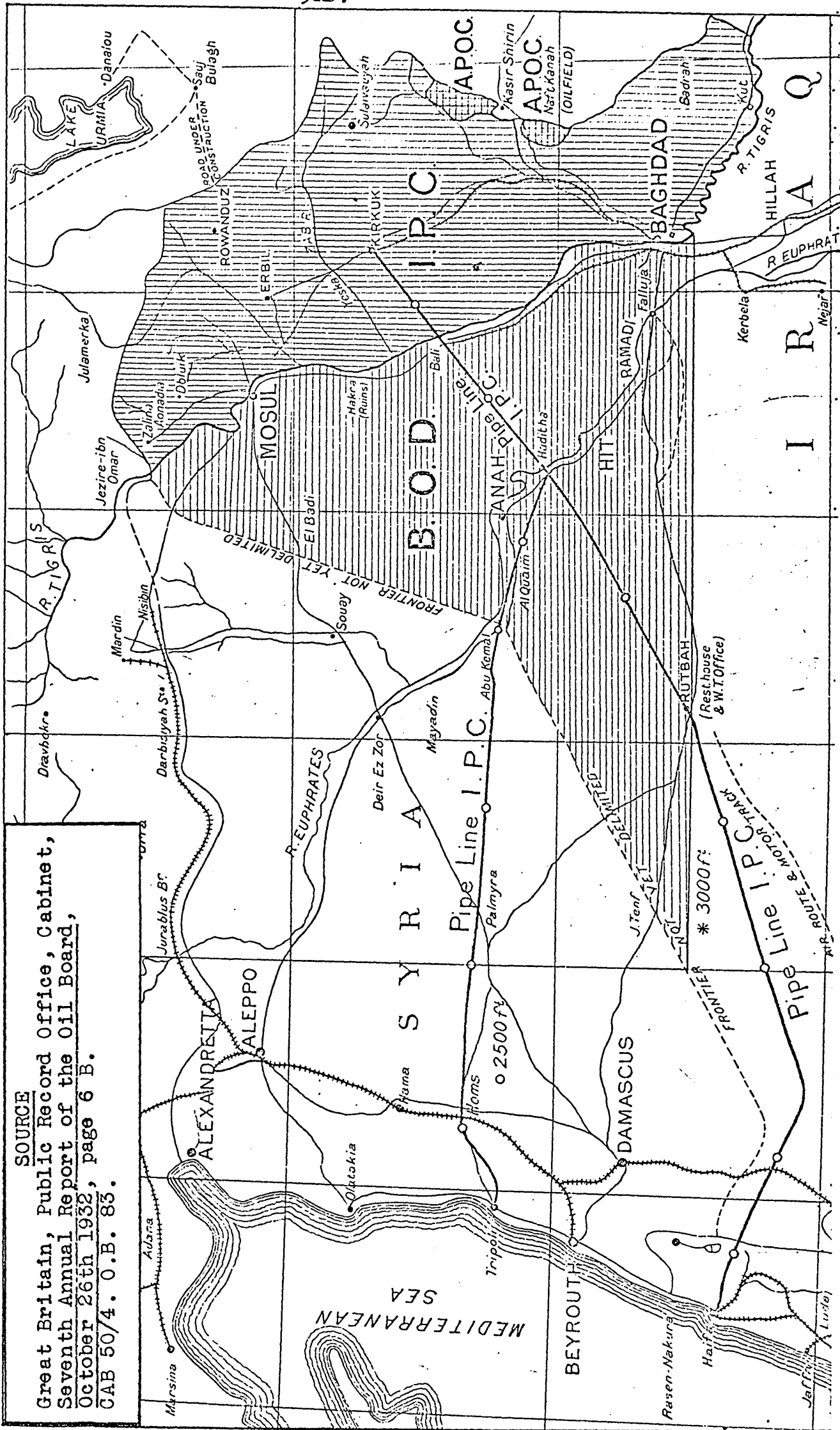
2. This is the figure given in Hurewitz, op. cit., Vol. II, p. 131.

MAP OF IRAQ SHOWING THE OIL CONCESSIONS OF ANGLO PERSIAN OIL COMPANY (A.P.O.C.), THE IRAQ PETROLEUM COMPANY (I.P.C.) AND BRITISH OIL DEVELOPMENT COMPANY (B.O.D.) AND PROPOSED PIPE LINES OF THE I.P.C.

362.

SOURCE

Great Britain, Public Record Office, Cabinet,
Seventh Annual Report of the Oil Board,
October 26th 1932, page 6 B.
CAB 50/4. O.B. 83.



The pipeline system was to be completed by December 31st 1935, and the Bay of Acre section was to be completed within six months of completion of the other line "unless the Government in writing request the Company to delay the construction of the pipeline system to the Bay of Acre in the interests of a Baghdad-Haifa railway." ¹.

The 1925 provision whereby Iraq received a royalty of four shillings (gold) per ton of oil exported (with a sliding scale in operation after twenty years) remained operative under the new Agreement. However, under the Agreement, Iraq was to receive a dead rent of £200,000 (gold) (not recoverable by the Company) and an advance of £200,000 (gold) (recoverable by the Company from future royalties) until oil export commenced. Once exports commenced, Iraq was to be guaranteed a minimum royalty of £400,000 (gold). ² Iraq was also to receive certain additional sums from the Company in lieu of taxation. ³.

1. Clauses 4 and 5 of the Agreement.

2. Clause 8 of the Agreement.

3. The taxation arrangement was not included in the main Agreement, but was detailed in an exchange of letters (attached to the Agreement) between Nuri Pasha and Skliros. The I.P.C. was to be exempt from all taxation in consideration of the payment of £9,000 (gold) per year until regular export of oil commenced. Thereafter the Company was to pay £60,000 (gold) for the first 4 million tons of oil exported, and then £20,000 (gold) for each subsequent million tons exported. (Copy of letter No.1155 dated 24th March, 1931, from H.E.Nuri Pasha As Sa'id Prime Minister to Mr. J. Skliros, Acting General Manager, 'Iraq Petroleum Co. Ltd. FO 371/15307/5/3183).

Clause 13 of the new Agreement modified Article 20 of the 1925 Concession (which laid down the conditions under which railways for Company use might be constructed), imposing restrictions on the construction of railways outside the concession area, thereby countering any danger of the early construction of a railway to a Syrian port. This provision was also supplemented by independent guarantees given by the French that they would not construct any railway in Syria from Palmyra to Abu Kemal, or towards Rutba. ¹.

Other provisions in the Agreement related to oil products to be produced by the Company for Iraq's internal consumption, and the prices thereof, ². while others related to facilities to enable the Company's operations to proceed without

1. Chargé d'affaires de France en Iraq à son Excellency le Ministre des Affaires Etrangères à Bagdad, March 22nd 1931.

FO 371/15306/5/2735.

2. Clauses 10 and 11 of the Agreement.

undue hindrance.^{1.}

All the various interests concerned could feel reasonably satisfied with the outcome of the protracted negotiations. Iraq had made certain financial gains in the dead rent and tax provisions, and in the articles relating to oil for internal consumption. She now also had a completely free hand in disposing of the territory not included in the Iraq Petroleum Company's Concession. Against this, however, she had, as it proved, given almost all the really useful oil areas to the Iraq Petroleum Company and, while she had ensured to some extent that that Company would not continually retard the development of its

1. Clauses 12, 16 to 19.

concession, she was still no nearer to realizing what was possibly one of her prime objectives - the construction of a railway to Haifa. True, a pipeline would go to that port by 1935 at the latest, but^{1.} there was no guarantee that the railway would ever be built.

The Iraq Petroleum Company had certainly achieved its prime objective - complete monopoly of all the likely oil resources of Iraq, and, while in the economic blizzard of the Depression the price it had had to pay for this monopoly in dead rents, fixed sums in lieu of taxation, etc., and the obligation to construct a double-branched pipeline, may have seemed a little steep, it could nevertheless congratulate itself on having got a very good bargain.

Even the French could have had very few real misgivings about the^{2.} Agreement, for, in the political circumstances of the time, they would have been exceedingly lucky to have secured full control of the outlet for Iraq's oil which a sole pipeline to Tripoli would have ensured - and in any case such control was of very limited practical value considering that the source of the oil was entirely outside French control. While they had been prevailed upon to give certain guarantees concerning Syrian railway construction, they had at least the satisfaction of knowing that the construction of a British controlled railway from Iraq to the Mediterranean was still as unlikely as it had ever been.

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1. In January 1935 the Standing Ministerial Sub-Committee of the Committee of Imperial Defence for Questions Concerning the Middle East approved conclusions reached in the previous October that, neither on political, economic, nor strategic grounds could the construction of a Baghdad-Haifa railway be justified. (CAB 51/1). In 1938 a project for the construction of a first class road instead was approved by the Cabinet. (Cabinet Minutes, February 23rd 1938. CAB 23/92. 9(38)5.)
 2. French political and commercial circles were reported to be satisfied with the outcome of the negotiations (The "Times" May 27th 1931, page 11, col. e).

The American Government had scarcely concerned itself about the revision of the concession, and its much proclaimed principle of the "Open Door", long dead in actual practice as far as this concession was concerned, was still, to all appearances, alive and operative in that most of the area of Iraq was now free for disposal to any likely concessionaire. The two remaining American Oil Companies forming the American Group in the Iraq Petroleum Company were reported to be well satisfied with the Agreement. ¹.

British interests had come out well from the long negotiations. A Haifa debouchment for the pipeline freed the Anglo-Persian Oil Company from any possible French interference, an important consideration should the Company, at some future date, play to transport any of its Persian supplies direct to the Mediterranean. ². Also, the Company, in addition to controlling a vast concession area in Persia, was now a partner in another extensive oil-bearing concession adjacent to it, and it, too, would benefit from the advantages, technical and otherwise, ³. of the change from the 24-plot concession to the very much larger blanket concession. ⁴.

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1. Note of a Meeting of the Near East Development Board (the American Group in the I.P.C.) FO 371/15307/5/2946. (For further brief comments on the "Open Door" see Chapter 14 below).
 2. The Anglo-Persian Oil Company had earlier feared the imposition of taxes on oil piped across Syrian territory (See Note by Commander Maund, April 20th 1928. FO 371/13020/7/2177). Also, Article 9 of the San Remo Oil Agreement (whereby the French claimed 25% of Persian oil piped through French territory) had to be reckoned with.
 3. The larger area granted to the Company would facilitate, for instance, the proper establishment of unit control practice (for which see Chapter 1 above).
 4. In view of the larger area involved, the A.P.O.C. agreed (after initial reluctance) that its oil royalty, fixed at 10% under the Red Line Agreement, should be reduced to 7½%. (Longrigg, Oil in the Middle East, p.75).

The conclusion of the Revised Concession Agreement was a defeat for the B.O.D. Company's attempt to oust its stronger rival from control of the most promising oil areas of Iraq. It had sought to use its influence against the Iraq Petroleum Company both in Iraq, and, aided by its Italian element, in the League of Nations, and had suffered defeat in both spheres.^{1.} Nevertheless, all its efforts had not been in vain, and it was, in 1931, in a stronger position than any other Company with regard to applying for concessions in areas not covered by the Iraq Petroleum Company's concession, as events were soon to prove.^{2.}

What of the British Government's interests and policy? Once again it had helped to steer Iraq and the Iraq Petroleum Company safely to agreement, thus avoiding the many dire international consequences which threatened at every hold-up in the negotiations. By refusing to press Iraq to surrender on some issues, but urging compromise when necessary, the British Government had to some extent allowed Iraq to fight its battles with the Company without thereby so antagonising the French that hostility to Iraq's entry into the League of Nations needed to be feared from that quarter. In so doing, of course, the British

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1. In October 1931 the League Council decided that, as the B.O.D. Company could have resorted to a court in Iraq competent to deal with its complaint, the Council could not consider it. (Extract: Resolution adopted by Council of League, October 5th 1931.
FO 371/15308/5/5632.
 2. The B.O.D. Company secured a concession for areas west of the Tigris (see Map at page 362) in April 1932. (See Chapter 14, below).

Government had not only been helping Iraq, but had at the same time been securing what it considered to be its own interests.

Yet, one is forced to ask what would have been the outcome had Iraq not adopted, as she did, an attitude "more pro-British than that adopted by His Majesty's Government", in demanding that Haifa be the pipeline terminal? At the time when the Iraqi attitude at last became clear (May 1930) the British Government had already decided on a policy which seemed to be tantamount to surrender to the French. Had Iraq's stand not stiffened the British resistance at this crucial point, it seems probable that what the British generally held to be a great strategic interest - that a pipeline should carry oil from Iraq to Haifa - would eventually have been surrendered. In that event, the whole bitter Anglo-French dispute of November 1928 to April 1929, coupled as it was with internal strife among British officials, would have had to have been regarded as a pointless farce instead of as a genuine clash of what each side considered to be its best interests.

A "pointless farce" might well describe the whole controversy over the pipeline question, however. Both the British and the French fought doggedly to ensure that the pipeline should run through territory under their own control. To some extent they felt that whichever alignment was chosen, along that same alignment would be built a railway, which would be of use strategically. But, this view was also often reversed - and the British at least gave some consideration to the building of a railway to Haifa in order to attract the pipeline there.¹ Nevertheless, the strategic arguments of both the British and

1. See Chapter 10.

the French had inherent flaws, for in the British case their much vaunted "all-Red route" for either pipeline or railway would always have been subject to cutting by the French in the event of a war between the two nations, and, against the French argument, there was the fact that however much control France might have had over a pipeline and railway in Syria, she would have had none over the portion which necessarily went through Iraq. Only when the two sides were not at war with each other, and when only one was at war with a third power, did the alignment of the route for the pipeline and railway matter. This being the case, it would have been better for the two sides to have agreed on some common policy and arrangement to safeguard each other's interests (such as, perhaps, the British "surrender" of May 1930 might have produced) rather than to have struggled pointlessly to secure apparent advantages which were in reality of doubtful value.

The pipeline controversy amply demonstrates the difficulties inherent in any situation where international rivalries are present. The multilateral tug-of-war within the Iraq Petroleum Company itself might well have destroyed that Company as a viable entity, or at the very least it might easily have destroyed the authority of its Chairman, Sir John Cadman. That Cadman himself survived this difficult time, and, despite some passing doubts among British officials, that he still maintained his close contacts with the British Government, may be regarded (from the British point of view) as not the least satisfactory aspect of the outcome of the struggle.

CHAPTER 12

THE BRITISH GOVERNMENT AND THE ANGLO-PERSIAN CRISIS OF 1932-33I. The coming of the crisis.

While the most difficult problems which the British Government faced in the late 1920's in its Middle Eastern oil policy centred round Iraq and the Turkish/Iraq Petroleum Company, nevertheless this was not the only area of difficulty. In Persia, too, developments were taking place which were to bring problems for the British Government, although matters did not really come to a head until late in 1932, when a serious crisis over the cancellation by Persia of the Anglo-Persian Oil Company's 1901 concession arose.

During the 1920's and early 1930's Persia supplied 20-25% of Britain's total imports of refined oil products, and approximately 75% of Britain's imports of crude oil. However, the loss of this source of supply would not have been a major disaster affecting Britain's vital interests in the context of Britain in peace-time. Even the Admiralty, which normally obtained about 40% of its peace-time requirements of fuel oil from Persia,¹ would

1. (1924 figure) Memo by First Lord of the Admiralty, January 10th 1924. CAB 24/164 C.P. 20.

merely have suffered from higher prices, not deprivation of oil, had Persian oil not been available.¹

It was primarily on account of its strategic value in the event of a maritime war in the Far East that Persian oil was important to Britain. As has been seen in Chapter 2, the war plans of the British navy were directed primarily against Japan, for which reason the Admiralty had pressed for the construction of a naval base at Singapore to which, in an emergency, the main Fleet could be sent. During the Fleet's passage to that base the strategic location of oil supplies at Abadan would be of prime importance - especially since there was as yet no pipeline to transport Iraqi oil to the Mediterranean. When the

1. This would have been so despite the reduction of the general availability of fuel oil resulting from the development of "cracking".

Fleet was actually stationed at Singapore, the Persian supply would be important also for keeping up the large reserves planned for that base; no reliance could be placed on Far Eastern oil sources in the event of a war with Japan, and transport from the more distant American sources tied up vital tanker tonnage, which could ill be spared.

The above aspects of the matter must be kept in mind in considering the attitude and actions of the British Government in the Anglo-Persian crisis of 1932-33, as must the fact that the crisis came while the Japanese occupation of Manchuria was causing the British Government to review its thinking on the situation in the Far East. This latter fact may possibly have had some marginal influence and have led to greater firmness on the part of the British Government in dealing with Persia; on the other hand, as will be seen later, the Japanese precedent of forceful action tended to make the British even less willing to consider the use of force against Persia than they already were.

In December 1925 Reza Khan became Shah Pahlevi, the Qajar ruler having been ousted from the throne of Persia by an Act passed by the Medjlis in the previous October. Reza Khan was thus able formally to assume the power and authority he had already been exercising to some extent for some years. Persia then entered on an era of modernization, the main motivation for which was an intense nationalism and a desire to rid Persia of foreign domination. With such

1. Report of Oil Board Sub-Committee, March 20th 1929. attached to Third Annual Report of the Oil Board, April 26th 1929
CAB 24/203. CP 142(29) page 17.

2. Banani, op. cit., pp. 43-51, 146-159.

motivation, this period of modernization inevitably brought conflict between the Persian Government and the Anglo-Persian Oil Company.

1.

After 1920 the Armitage-Smith Agreement had continued to be the basis on which Persia's royalties from the Anglo-Persian Oil Company were calculated, but the Persian Government was not entirely satisfied with this state of affairs. Sir Percy Loraine wrote in June 1925:-

What the Persians want is increased revenue from the oil royalties, and a feeling of security that they are not being swindled, by manipulations which they can neither understand nor control, in the calculations on the profits basis. 2.

At this time Sir John Cadman was in Tehran discussing the question (inter alia) with the Persian Government, but no agreement was arrived at between the two sides.

The Persian Government had never had the Armitage-Smith Agreement ratified by the Medjlis. As the Persia of Reza Shah began to feel itself no longer merely the totally helpless pawn of the Great Powers, it was inevitable that the validity of the Agreement would eventually be questioned if Persia did not receive the amount of profit to which she felt herself to be entitled. In 1928 the validity of the Agreement was definitely challenged by the Persian Government as part of its argument that the terms of the 1901 D'Arcy Concession should be revised. Although at this point the Anglo-Persian Oil Company maintained that the Armitage-Smith Agreement was valid, the Company

1. See Chapter 5 (above).

2. Loraine (Tehran) to Oliphant, June 1st 1926. FO 371/11498/1194/3853.

itself favoured a revision of the concession, particularly with regard to extending the concession's duration.¹ Thus discussions on the basis of a revised concession were initiated.

The British Government, with its controlling shares in the Anglo-Persian Oil Company,² naturally had a great interest in any proposed revision of the 1901 concession, and was kept fully informed of the Company's proposals for this. In November 1928 a Conference of Ministers called specifically to discuss the question agreed to allow negotiations to proceed on the basis of Persia extending the life of the concession (which then had only thirty-two years to run) in return for Persia being granted a block of shares in the Company.³ Later negotiations broke down, however, primarily on the question of how large the block of shares was to be.⁴

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1. Shwadran, op.cit., pp.41-42. For a discussion of both the Company's and the Persian Government's points of view, see Nikpay, op.cit., pp. 468-474.
 2. On the relations between the British Government and the A.P.O.C. see above, Introduction, and Chapter 4.
 3. There were, however, doubts expressed in Government circles on the wisdom of giving Persia a shareholding in the A.P.O.C., particularly since, it was feared, Iraq would resent this - and the pipeline question still had to be settled (Iraq had not been given any share participation in the T.P.C., it will be recalled). Proceedings of Conference of Ministers, November 20th 1928. CAB 21/306.
 4. Memo by Lockhart (A.P.O.C.) on Concession Revision and Royalty Negotiations April 1929-May 1932 (January 1933) pp.1-2. FO 371/16933/17/182.
The "Times", December 7th 1932, page 9. col.b.

On April 1st 1931 Teymourtache (the Persian Minister of Court) put forward a list of fourteen demands. These included, inter alia, reduction of the concession area, cancellation of the Company's exclusive right to lay pipelines, Persian participation in shareholding, and a minimum annual payment under royalty and share participation headings of £2,500,000, as well as £200,000 on account of the settlement, together with demands for oil at cost prices etc. On July 1st the Company officially rejected these proposals,¹ and on August 7th

1. Lockhart's memo pointed out that if the Company had agreed to pay Persia the sums she demanded in 1931 it would have been left with a mere £17,700 for allocation to reserve and for preference and ordinary shareholders.
(Memo by Lockhart etc. page 4. FO 371/16933/17/182.)
It is likely that knowledge of the financial gains made by Iraq in the Revised Concession of 1931 spurred on the Persians to put forward such demands.

Cadman, feeling that the differences between the two sides were too great to be reconciled, suggested, in a letter to Teymourtache, that the question of the revision of the Concession should be left over "(until) times were more propitious and the present chaotic condition^{1.} of the oil industry ha(d) disappeared".

After August 1931 negotiations between Persia and the Anglo-Persian Oil Company continued, no longer on the basis of a revision of the Concession, but on the narrower problem of the calculation of royalties. Failure to settle this problem satisfactorily, and the sudden reduction of Persia's royalty from £1,288,312 for the year 1930 to a mere £306,872 for the year 1931, as a result of the economic^{2.} depression, then led Persia to resort to desperate measures.

The main story of Persia's unilateral cancellation of the D'Arcy Concession and the subsequent Anglo-Persian crisis of 1932-33 has^{3.} been told in detail by several writers who were able to take full advantage of the fact that, since the dispute came before the League

1. Ibid., p. 9.

According to information supplied in confidence to the writer, one of the reasons why no progress was made with the negotiations in 1931 was that the Company was not willing to offer a large enough gift to Teymourtache and others.

2. Shwadran, op. cit., p. 42. R.I.I.A., Survey, 1934, p.237.

3. Notably:- Elwell Sutton, Persian Oil (London, 1955).
 Shwadran, op. cit.
 Nikpay, op. cit.
 R.I.I.A., Survey, 1934.

of Nations, and was followed some years later (1951) by a (prima facie) similar Anglo-Persian controversy, a great deal of information relating to the dispute has been made public. For this reason only a bare outline of events will be given here, included primarily for the sake of completeness, and in order to make intelligible certain less well-known aspects of the matter.

It must first of all be pointed out that, in the negotiations leading up to the crisis, the British Government played no part - except as has been indicated in earlier pages of this chapter. Although during most of the period of the negotiations the British Minister in Tehran was actively discussing with the Persian Government various matters, including debt claims, air routes, capitulations,^{1.} etc., the oil negotiations were at no time deliberately linked with these other matters. The Anglo-Persian Oil Company conducted its own negotiations, and doubtless would have resisted any further complication of its already complex problems which inclusion in a general settlement between the two Governments would have involved.

The British Government received its first formal intimation

1.

See: R.I.I.A., Survey, 1934, p. 223.

Also, Foreign Office Memo, October 24th 1932. CAB 24/234. CP. 358(32)
Foreign Office Memo, December 2nd 1932. CAB 24/235. CP 415(32).

that serious trouble from Persia might be imminent on October 21st 1932, in a letter addressed to the Foreign Office by Sir John Cadman. No specific Government action seemed called for at this stage, however.¹ Then, on November 27th the Persian Minister of Finance handed the Anglo-Persian Oil Company's representative in Tehran a note stating that the Persian Government had cancelled the D'Arcy Concession and considered it void, but that, nevertheless, the Persian Government "(would) not, in principle, refuse to grant a new concession" to the Anglo-Persian Oil Company.²

The Anglo-Persian Oil Company immediately protested. Initially the Company felt, as there did not appear to be much actual trouble in the oilfields - although the Company's signs had been blacked out - that it would be better to keep the matter entirely between the Company and the Persian Government, rather than involve the British Government. At this stage, Oliphant (Assistant Under-Secretary of State for Foreign Affairs) was willing to acquiesce in this line.³

1. Cadman to Foreign Office, October 19th 1932. FO 371/16078/3880/5508.

2. R.I.I.A., Survey, 1934, p.238.

The prime mover behind this unexpectedly drastic move seems undoubtedly to have been the Shah, who was extremely anxious to force the Company to some settlement which would give Persia more money and thus enable his modernization schemes (particularly as concerned railways) to go forward. See: Hoare (Tehran) to Foreign Office, December 3rd 1932. FO 371/16080/3380/6748. Also Hoare (Tehran) to Oliphant, March 11th 1933. FO 371/16937/17/1637.

3. R.I.I.A. Survey, 1934, p.238.

Minute by Rendel, November 29th 1932, and Hoare (Tehran) to Foreign Office, November 29th 1932. FO 371/16078/3880/6257 and 6267.

On November 29th, however, Vansittart (Permanent Under-Secretary of State for Foreign Affairs) struck out against the view then held generally by his colleagues in the Foreign Office that the British Government should stand by and leave the matter to be settled between the Company and the Persian Government. "If we do not make ourselves felt at the outset, we shall have far worse trouble with the Persians later", he minuted. Later he commented (on receiving news that there was little interference with the Company's operations at the oilfields):

This news is better. But H M G (sic) cannot keep out of it altogether, and it is useless to expect that we can. Nor do I think that we should,

and he urged that "a very strong telegram to Tehran (would) now be necessary".¹ Vansittart's view was supported by the Cabinet as a whole on November 30th, and the British Minister in Tehran (R.H. Hoare) was instructed to protest at once and to demand the immediate withdrawal of the Persian note of cancellation.²

The Anglo-Persian Oil Company, possibly a little surprised at the British Government's immediate strong reaction to what

1. Minutes by Vansittart, November 29th and 30th 1932.
FO 371/16078/3880/6258, 6259 and 6267.
(Vansittart, of course, was consistently a "hard liner" on many issues - his positive views on British policy with respect to Hitler, for example, are well known).
2. Cabinet Minutes, November 30th 1932. CAB 23/73. 64(32)3.
Foreign Office to Hoare (Tehran) November 30th 1932.
FO 371/16078/3880/6298.

appeared to be a Persian manoeuvre designed to force the Company to compromise, initially considered measures by which negotiations might be re-opened. Later, however, the Company decided

to leave matters to be conducted by His Majesty's Government, whose recent strong language showed the intention of not being browbeaten by the Persians. The only point on which the Company would feel uneasy would be were His Majesty's Government to modify the strong attitude hitherto outlined and then to turn to the Company and invite them to build their own bridge... 1.

The British Government had no intention of modifying its firm attitude. On December 6th Vansittart reviewed the situation, in a memorandum for the Cabinet. It was important, he stressed, that Britain did not resort to force at this stage, since such action would result in Persia appealing to the League of Nations, and the main point at issue would then become the question of British aggression against Persia, not Persia's cancellation of the D'Arcy Concession, to the obvious detriment of the British case. Furthermore, the use of force would afford too much of a parallel with recent Japanese action in Manchuria, and,

were the matter referred to the Council, His Majesty's

1. Note of an interview between Hearn and Fraser (A.P.O.C.)
and Oliphant and Rendel, December 5th 1932 (and POSTSCRIPT)
 FO 371/16078/3880/6402.

Government would probably be able to count on the support of Japan alone to prevent a unanimous recommendation under Article 15 that His Majesty's Government should withdraw their troops or cease the forcible action which they had embarked upon; and the general consensus of international opinion would undoubtedly be that if the action of Japan in Manchuria had weakened and rendered doubtful the efficacy of procedure before the League and the Hague Court, the action of His Majesty's Government in Persia had completed in this respect the destructive work of Japan.

There was also, Vansittart noted, some danger of involvement with Russia should Britain use military force in Persia. The policy of the British Government should be to continue to press for the definite withdrawal of the Persian notice of cancellation of the Concession as an essential preliminary to any Company-Persian Government negotiations, and, failing a satisfactory response from Persia, to refer the dispute to the Permanent Court of International Justice.^{1.}
^{2.}
 On December 7th the Cabinet approved this line of action.

On December 8th the Persian Government was informed of the British Government's decision. In reply, the Persian Government related its grievances, and threatened to bring His Majesty's Government before the League on the grounds that that Government had resorted to threats and pressure against Persia. Thereupon the British Government resolved to forestall Persia, and itself submitted the dispute to the League Council, under Article 15 of the League

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1. Memo by Vansittart, "Cancellation of Anglo-Persian Oil Company's Concession", December 6th 1932. CAB 24/235. CP. 421.
 2. Cabinet Minutes, December 7th 1932. CAB 23/73. 65(32)3.

Covenant, on December 14th. The dispute had now definitely become an issue between the British and Persian Governments; tentative moves by the Anglo-Persian Oil Company to get negotiations going between its representatives and the Persian Government were therefore blocked until a settlement satisfactory to the British Government could be reached.^{1.}

II. The new Concession Agreement.

The cancellation of the D'Arcy Concession led to a renewed appraisal of defence schemes for the South Persian oilfields. Up to this time all such schemes had been geared to a situation where aggression against the oilfields was expected to come from marauding bands against which the protection of the Persian Government had become inadequate. They had not envisaged aggression by the Persian Government. On December 7th 1932 the Cabinet therefore suggested that attention should now be given to that latter contingency.^{2.}

On December 12th the Joint Planning Sub-Committee of the

1. R.I.I.A., Survey, 1934, pp.239-240.
Foreign Office to Hoare (Tehran) December 23rd 1932 (also Foreign Office Minutes). FO 371/16080/3880/6744.
Article 15 of the League Covenant begins:-
 "If there should arise between Members of the League any dispute likely to lead to a rupture which is not submitted to arbitration as above (i.e. Articles 12 and 13), the Members of the League agree that they will submit the matter to the Council"
2. Cabinet Minutes, December 7th 1932. CAB 23/73. 65(32)3.

Chiefs of Staff Sub-Committee of the Committee of Imperial Defence produced its Report. It concluded that the forces then available were not sufficient to protect the Anglo-Persian Oil Company's pipeline to the Gulf if the Persian Government decided to seize it, and reinforcements to regain it would take several months to arrive. The Report therefore suggested an initial three-phase operation, involving the initial evacuation of personnel, and then, later, possible bombing of military objectives - though the Report also warned of the possible repercussions of such actions on, for instance, Russian policy in Persia, and the internal situation in Iraq. The Cabinet, however, merely took note of the Report, postponing any action until it was seen how the situation would develop. ¹.

On January 24th 1933 the League Council appointed Dr. Benes, of Czechoslovakia, to be its Rapporteur on the dispute between Britain and Persia, and on January 26th spokesmen for both sides in the dispute argued their respective cases. ².

1. Report of the Joint Planning Sub-Committee of the Chiefs of Staff Committee "Protection of the Anglo-Persian Oil Company's Property" December 12th 1932. CAB 24/235. CP. 430. Cabinet Minutes, December 14th 1932 CAB 23/73. 67(32)3. Much has been made in accounts of the Anglo-Persian dispute of the fact that British warships appeared in the Gulf at the time of the crisis. It is difficult to tell from the available documents, however, to what extent the sending of the ships was a deliberate act designed to impress the Persians (as most writers allege or imply that it was).

2. R.I.I.A., Survey 1934, p.240.

The aim of the British Government at this stage was not so much to secure a decision against Persia in the dispute (except as a last resort), but rather it was to get a suitable formula on which negotiations between Persia and the Company could proceed; there were to be no negotiations on the basis that the Concession had been cancelled.¹ On January 31st Persia accepted the Rapporteur's formula of suspension of action before the League while negotiations were begun between the Persian Government and the Anglo-Persian Oil Company, without prejudice to the position taken by either side. If there were no decision by May, when the Council was next in session, the Council would again consider the matter; meanwhile, the Company's operations were to continue in Persia unhindered.²

On February 4th Persian Government and Company representatives met in Paris, but no agreement could be reached, and negotiations were therefore transferred to Tehran.³ In April

1. Foreign Office Memo on Anglo-Persian Oil Company Dispute, January 11th 1933. FO 371/16933/17/239.

2. R.I.I.A. Survey, 1934, pp.240-242.
H.M. Consul at Geneva (Mr. Eden) to Foreign Office, January 31st 1933. (telegs. numbers 37 L.N. and 38 L.N.)
 FO 371/16935/17/645 and 646.

3. Note of Proceedings at Geneva between Persian and Company representatives, February 4th 1933. FO 371/16936/17/1235.
Cadman to Eden, February 13th 1933. FO 371/16936/17/933.

the Tehran negotiations ran into trouble, to be saved, however, by the direct intervention of Cadman with the Shah:

Sir John convinced His Imperial Majesty that neither the Anglo-Persian Oil Company nor any other oil Company could possibly exploit the Persian oil fields on the basis of the Persian proposals.... 1.

The Shah then consented to be present at the next meeting of the negotiators, when he

consigned the Persian proposals to the waste-paper basket (and) concluded that the proposals of the company would provide a solution of lasting benefit to both sides. 2.

Most of the main issues were settled at that meeting, although the very important question of the duration of the concession had to await the outcome of a further exchange of views between Cadman and the Shah. After various difficulties in drafting, the Agreement was finally signed on April 30th. On May 28th it was ratified by the Medjlis, and received the Shah's signature the following day. 3.

1. Hoare (Tehran) to Foreign Office, May 6th 1933.
FO 371/16937/17/2658.

2. Ibid.

It seems likely that the Shah's anxiety to push forward his modernization schemes, for which he would need A.P.O.C. money from royalties etc., led him to aim for a settlement at this juncture rather than let the matter drag on.
(See above, page 378 , footnote 2).

3. Rowland and Cadman, op.cit., p.131.

Hoare (Tehran) to Foreign Office, May 6th 1933. FO 371/16937/17/2658.
Hoare (Tehran) to Foreign Office, May 28th and May 30th 1933.
FO 371/16938/17/2788 and 2843.

The dispute between the Anglo-Persian Oil Company and the Persian Government was thus settled amicably. While the part played by the two principal protagonists in the Tehran negotiations, Sir John Cadman and Reza Shah, was obviously of great importance in securing the final settlement, the part played by Vansittart at the outset was also crucial, and the comparatively rapid settlement of the dispute would seem to some extent to vindicate Vansittart's policy.

1.

The new Concession Agreement was a far more comprehensive document than the 1901 D'Arcy Concession, and its provisions were much more detailed. Articles 1 and 2 gave the Anglo-Persian Oil Company exclusive exploitation rights in an area covering the

2.

southern half of the original D'Arcy Concession until December 31st 1938, by which date the Company was to select from this area "one or several areas of such shape and such size and so situated as the Company may deem suitable", of a total area not exceeding 100,000 square miles. Thereafter the Company's right to search for and extract petroleum was to be confined to the selected areas. Article 3 gave the Company the right to construct pipelines in Persia, but this was no longer to be an exclusive right.

The Persian Government was to receive payment from the Company on the basis of an annual royalty of four shillings for every ton of

1. Text in: Hurewitz, op. cit., pp. 188-196.

2. This was marked on a map attached to the Agreement. (See Map at page 387.)

petroleum either sold in Persia or exported. In addition, the Persian Government was to receive a sum equal to 20% of the distribution to ordinary stockholders in excess of £671,250. The total annual payment under these two headings was never to be less than

1. £750,000. Provision was made for adjustment of the payments in the event of fluctuations in the value of sterling as compared with

2. gold. For the first thirty years of the new concession period the Company was to be exempt from taxation, in consideration of payment of nine pence per ton for each of the first six million tons sold, and six pence per ton thereafter for the first fifteen years, after which these payments were to be increased to one shilling, and nine pence, respectively. These payments were never to fall below an annual total of £225,000 (£300,000 for the second

3. fifteen years).

Article 15 gave the Persian Government the right to appoint a "Delegate of the Imperial Government" who was to be present at all meetings of the Company Board. The period of the Concession was to be from the date of its coming into force to December 31st 1993 (Article 26). Part of Article 21 read:-

1. Article 10, I, a, b, c, (The figure £671,250 was the equivalent of a 5% dividend.)

2. Article 10, V.

3. After the first thirty years, new arrangements were to be made. Article 11, I.

This Concession shall not be annulled by the Government, and the terms therein contained shall not be altered either by general or special legislation in the future, or by administrative measures or any other acts whatever of the executive authorities.

1.

Differences between the parties were to be settled by arbitration.

In settlement of all past claims the Company was to pay the Persian Government the sum of £1,000,000, plus an adjustment for Persian taxation claims. In addition, royalty payments for the years 1931 and 1932 were to be adjusted by basing calculations for those years on Article 11, I, (a) of the new Agreement.

2.

"Neither the Persians nor the Company emerged from the agreement with decided advantages one over the other, as compared with the D'Arcy concession", writes B. Shwadran. This is certainly true. While on the one hand the Persian Government had undoubtedly secured what had been its main aim, a much more satisfactory basis for the Company's payments than under the D'Arcy concession, together with some (though limited) share in the profits of the Company as a

1. Article 22.

2. Article 23.

The provision regarding the guaranteed minimum royalty payment (Article 10) was not to apply for these years. Total payments to Persia for 1931, which under the D'Arcy Concession had been assessed at £306,872, were, under the new Agreement, £1,339,132. (Shwadran, op. cit., pp. 42 and 163)
(This gives some idea of the financial advantages (to Persia) of the new Agreement.)

3. Shwadran, op. cit., p. 56.

whole, on the other hand the Company had also secured its main aim - an extension of the life of the concession. Against the fact that the Company had had to surrender its exclusive exploitation rights over much of the area of the 1901 Concession was the undoubted advantage that, with a free hand to select its areas, the Company would be able in practice to retain control of nearly all the likely oil-bearing land in Southern Persia. Both Persia and the Anglo-Persian Oil Company could be well satisfied with the outcome,^{1.} the latter in particular being able to derive as much satisfaction from the onerous terms it had avoided having to make as from its actual gains.^{2.}

The British Government, too, could congratulate itself on the conclusion of the dispute. The old "gunboat diplomacy" of the previous century being outmoded and impracticable for the Britain of the 1930's, the British Government had had perforce to rely on more pacific means of settling disputes with such nations as Persia. The results on this occasion were gratifying, for not only was the dispute quickly settled, but it was settled amicably, and the British Government's vital interest in the matter - protection of the Persian source of naval oil supplies - remained secure.

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1. For a detailed comparison of the gains and losses made by each side in the dispute see R.I.I.A., Survey 1934, pp. 243-247. Elwell Sutton, op. cit., pp. 80-87. See also Rendel to Sheddton (Australian Liason Officer) August 2nd 1933. FO 371/16938/17/4248.
 2. For example, the Company was still exempt from Persian taxation (except for the payments made under Article 11, I) and customs dues. Also, at one time the Persians had claimed the right to appoint as many as 4 directors to the Company's Board (Rendel to Sheddton, August 2nd 1933. FO 371/16938/17/4248).

The crisis of 1932-33, however, brought home to the British Government facts which had until then been only vaguely apprehended. Until Reza Shah had taken full control of Persian life and development, Persia had been of little account as a political or a military force. However, in the last few years, Britain now realized, Persia

ha(d) changed considerably in that there (was) now a strong central government in Tehran and Persia must be regarded as a definite military entity. (Furthermore) recent events (had) shown that trouble with the Persian Government over the oilfields (might) occur with very little warning... 1.

It was thus necessary, it appeared, for Britain to take account of these facts, and to include them in its scheme for defence of what it considered to be a vital interest, the South Persian oilfields. As
2.
the emergency scheme of December 12th 1932 had remained merely as a bare outline plan, it was therefore considered advisable to give attention to its further development. Consequently, on April 11th 1933 the Joint Planning Sub-Committee of the Chiefs of Staff Sub-Committee of the Committee of Imperial Defence was asked, as a first step,

to prepare plans for the recapture and subsequent defence of the Anglo-Persian Oil Company's property in Persia, and that the question of considering any extension of those operations should be deferred until this investigation was completed. 3.

1. Report by Joint Planning Sub-Committee of the Chiefs of Staff Sub-Committee of the Committee of Imperial Defence, "Defence of the South Persian Oilfields", April 8th 1933
CAB 53/23. C.O.S. 305 (J.P.)

2. See above.

3. Chiefs of Staff Sub-Committee Papers prepared for use of the Chiefs of Staff in the Annual Review for 1933: Annexure 4. pp.31-32
CAB 53/23 C.O.S. 306.

Eventually, however, the idea of developing the scheme of December 1932 in such a way was not pursued, and instead defence planning reverted to the old basis of meeting only the contingency of the Persian Government lapsing once again into such a state of weakness that it would be unable to protect the Anglo-Persian Oil Company from such threats as dissident tribesmen, marauding bands etc. One reason at least for this decision was the satisfactory nature of the new Concession Agreement reached in April 1933.^{1.}

2.

After an initial setback, British prestige in the Middle East did not appreciably suffer as a result of the Anglo-Persian crisis, but, to British military planners at least, Britain's inherently weak hold on the situation in that part of the world had been exposed. Britain had not the military strength on the spot to deliver a short, sharp rebuke to any antagonist, and the length of time that it would have taken to build up sufficient strength to be able to do this would have given ample opportunity for her political enemies to

1. Report by Joint Planning Sub-Committee of the Chiefs of Staff Sub-Committee of the Committee of Imperial Defence "Scheme for Defence of the South Persian Oilfields" May 15th 1934
CAB 53/23. C.O.S. 334 (J.P.) and C.O.S. 335 (J.P.)
2. For example, the Sheikh of Kuwait, who had been approached by the Anglo-Persian Oil Company on the subject of an oil concession in his territory, was showing a marked reluctance to come to terms early in 1933. The Foreign Office felt that one reason for the Sheikh's attitude was the damage done to both the A.P.O.C's and the British Government's prestige in the Gulf by the Persian cancellation of the D'Arcy Concession.
(Minute by Rendel, March 4th 1933. FO 371/16835/12/1196.)

muster their propaganda, and, perhaps, their military weapons against her. Thus, while Britain could perhaps still have played the dominant political role, it is very doubtful if, had a serious crisis come, she would have had the military strength to maintain that role - at least, as long as she had remained without powerful
1.
allies.

1. Britain's forceful action in Persia in 1941 was carried out in conjunction with Russia. Such action would have been impossible in any other circumstances.

CHAPTER 13

BAHREIN, KUWAIT, AND THE BRITISH EMPIRE'S OIL LEASING POLICYI. Bahrein and British oil leasing policy.

As has been seen in previous chapters, British oil policy during the period of this study was usually the resultant of several opposing policies put forward by the different Government Departments. Thus, for example, while on the one hand the Admiralty usually advocated a policy which gave almost exclusive consideration to the Admiralty's strategic needs, on the other hand Admiralty desiderata often ran counter to the political desiderata of the Foreign Office, and this evoked opposition from that Department.

The struggle within British official circles to determine the policy of the Government is well illustrated in the issue of the leasing of oil-bearing territory within the British Empire as a whole, and in territories such as Bahrein and Kuwait. In order to complete the story of Britain's Middle Eastern oil policy, some detailed examination of these issues is necessary.

Mention was made in Chapter 2 of attempts in the early 1920's to rationalise the rather haphazard "policy" of the British Empire with regard to the leasing of oil-bearing territory, all of which attempts came to nothing. The status quo was maintained, and as far as the records show there was no further discussion of the matter for several years. In 1929, however, three things conspired to raise the question again in British circles. These were,

firstly, an attempt by American oil interests to gain an oil concession in Bahrein. Secondly, a note from the American Embassy, dated April 3rd 1929, which dealt with this subject (the proposed American oil concession in Bahrein), and which, furthermore, asked for a statement of the British Government's general policy on the operation of concessions by foreigners in British controlled territories such as Bahrein.^{1.} Thirdly, a request by the Governor of British Guiana that His Majesty's Government waive the restrictions in that colony^{2.} on the development of oil-bearing territory by foreign capital.

The question of policy in British Guiana might well have been settled immediately by the waiving of all restrictions on foreign capital, had it not been for its probable bearing on future policy in Trinidad.^{3.} The Bahrein question was in some respects similar, but here the question was less simple because, unlike British Guiana, Bahrein was not a British colony. Whatever control Britain had of

1. Memo by Mr. Atherton (U.S. Chargé d'Affaires), April 3rd 1929
FO 371/13730/281/1697.
2. Petroleum Dept. Memo, "Oil Concessions in British Colonies and Protectorates: British Control of Companies" (n.d., probably May 1929) FO 371/13540/252/3407.
Interest in oil prospects in British Guiana grew after indications of the presence of oil were found in a water boring.
(Petroleum Dept. Memo, July 1929. FO 371/13540/252/4591.)
3. The Admiralty objected to the waiving of restrictions in British Guiana (because of Admiralty interest in Trinidad oil development).
Note of Inter-Departmental Meeting, May 7th 1929
FO 371/13540/252/3408.

Bahrein derived (legally) only from certain treaty obligations and, in the case of oil concessions, from a specific promise by the Sheikh (in 1914) not to grant any concession without British Government approval.^{1.}

Britain's interest in Bahrein was mainly on account of its being one of a chain of Gulf sheikhdoms whose independence Britain wished to see maintained in order that her own control of the Gulf should not be jeopardised. Of itself Bahrein was of limited strategical value, and the Admiralty did not place much value on it as a naval base; it could, however, serve as a useful link in Britain's air route to the East.^{2.} The British Government's concern over possible American entry into Bahrein was rather because such entry would give the Americans a foothold in the Gulf, which might lead to further encroachment, and to consequent political repercussions, than because of any belief that worthwhile oil deposits existed there.^{3.}

1. The Sheikh of Bahrein first signed a treaty with Great Britain in 1820; this was followed by others in 1861, 1880 and 1892, which gave the British Government a considerable degree of control over the Sheikh's actions.

See Memo by Gregory on the Foreign Policy of His Majesty's Government (n.d.) submitted to Chamberlain, April 10th 1926, in D.B.F.P., Series 1A, Vol. I, p.865.

For the Sheikh's promise see D.H. Finnie, Desert Enterprise, (Cambridge, Mass., 1958), p.34.

2. Report by Chiefs of Staff, "The Persian Gulf", October 11th 1928.
CAB 53/16. C.O.S. 179.

Air Ministry to Foreign Office, December 28th 1927, and
Admiralty to Colonial Office, January 19th 1928.
FO 371/12997/51/51 and 352.

3. Bahrein was not generally considered to be a promising source of oil in the 1920's.

In December 1925 a British Company, the Eastern and General
 1. Syndicate, obtained a concession from the Sheikh of Bahrein covering an area of approximately 100,000 acres. Two years later, after unsuccessful attempts to interest British companies, the Syndicate signed a contract with the Gulf Oil Company of Pennsylvania whereby the latter Company acquired an option to take over the concession. In December 1928 this option was transferred to the Standard Oil Company of California, which then organized a Canadian subsidiary
 2. to take over the concession.

In October 1928 the Eastern and General Syndicate approached the Colonial Office on the question of securing a one year's extension
 3. to its prospecting licence, which was due to expire in December 1928. Thereupon the Colonial Office, concerned to prevent transfer of the concession to American interests, informed the Syndicate that the extension would only be allowed if the concession were modified so as to include a "British Control Clause". To this the Syndicate objected, on the grounds that such a clause would be unacceptable to

1. The Eastern and General Syndicate was registered in 1920, in London. See: W.R. Skinner, The Oil and Petroleum Manual (London, 1925), p. 75, and G.W. Stocking, Middle East Oil (London, 1971) p. 70.

2. F.R.U.S., 1929, III, p. 80.
 (The Gulf Oil Company of Pennsylvania was a member of the American Group in the Iraq Petroleum Company, and was therefore subject to the restrictive provisions of the Red Line Agreement, in which area Bahrein was included.)

3. It had already been renewed once, from December 1927.

1.
the American company to which the concession was to be transferred.

The "British Control Clause" was a series of provisions which had been incorporated into certain oil leases in Trinidad in order to ensure British control of an extremely useful source of oil within the British Empire (Trinidad's annual oil production passed the one million ton mark in 1928). Under these provisions it was provided that the lessee should be and remain a British Company, registered in His Majesty's dominions; the managing director and a majority of the other directors of the leasing Company, as well as the local manager and a proportion of the staff, should be British subjects; neither the Company nor the premises comprised in the lease were to be controlled, directly or indirectly, by foreigners; there was to be no change in these provisions (which were usually incorporated in the Memorandum and Articles of Association of the Company) without

2.
the consent of the Governor. The British Control Clause was, if
3.
necessary, generally applicable in Crown colonies; its application

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1. Eastern and General Syndicate to Colonial Office, October 22nd 1928 and Colonial Office to Eastern and General Syndicate, November 23rd 1928. FO 371/13017/3239/5414 and 5638.
 2. Petroleum Dept. Memo, "Oil Concessions in British Colonies and Protectorates: British Control of Companies" (n.d., probably May 1929) FO 371/13540/252/3407.
 3. Strictly, the British Control Clause applied where oil rights were the property of the Crown. Thus it applied in:-
Trinidad - the Crown held three quarters of all the oil rights.
Other Crown Colonies - all mineral rights were reserved to the Crown.
Burmah - the Crown held all the oil rights.
India - the Crown held most of the oil rights.
(Ibid.)

in such a territory as Bahrein, however, was a somewhat different matter.

The Petroleum Department, which from 1919 to 1923 had vainly sought to put British oil leasing policy on a more rational basis, again took the initiative, and it concerned itself as much with the question of general policy as with the particular cases of Bahrein and British Guiana. In addition to initiating discussions with the other Government Departments, the Petroleum Department also sought the views of the main British oil companies on the general policy question, evincing replies which generally favoured the abandonment of British restrictions on development by foreign companies. ¹.

Inter-departmental discussions on general leasing policy found the Service chiefs opposed to radical changes. On the question of Bahrein, however, there was, eventually, general agreement that opposition to the participation of American interests in the Bahrein concession should be abandoned, on certain conditions, which were to be worked out;². Later,

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1. Arnold Wilson (A.P.O.C.) to H.W. Cole (Pet. Dept.) May 6th 1929 and Anglo-Saxon Petroleum Company to H.W. Cole (Pet. Dept.) May 7th 1929. FO 371/13540/252/3407.
Central Mining and Investment Corporation (Trinidad Leaseholds) to Petroleum Department, May 21st 1929.
 FO 371/13540/242/3774.
 2. Note of Inter-Departmental Committee Meeting ... May 7th 1929.
 FO 371/13540/252/3408.
 (As noted, the Admiralty, the Department most interested in oil policy, had no great strategic interest in Bahrein. Hence the Foreign Office, concerned for Anglo-American relations, had little difficulty in getting its view accepted).

discussions on the subject of these conditions began between the Colonial Office on the one hand, and the Eastern and General Syndicate and the Standard Oil Company of California on the other, final agreement being reached in February 1930. ^{1.}

The main conditions agreed were that the company formed to take over the Bahrein concession was to be and remain a British Company, registered in Canada; one of the five directors was to be a British subject persona grata to the British Government; the Company's chief local representative (who alone was to be responsible for the Company's dealings with the local authorities) was to be a person approved by the British Government, and as many employees of the company as possible should be either British subjects or subjects of the Sheikh of Bahrein. ^{2.} On June 12th 1930 the Eastern and General Syndicate signed an agreement which incorporated these conditions with the Sheikh of Bahrein, and then transferred its rights to the Bahrein Petroleum Company, the Canadian subsidiary of the Standard Oil Company of California. ^{3.}

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1. for the negotiations between June 1929 and February 1930, see:-
FO 371/13730/file 281/paper number 3091 to end of file.
FO 371/14454/file 28/paper numbers 28 to 726.
 2. Colonial Office to Eastern and General Syndicate, February 8th 1930. FO 371/14454/28/726.
See also the Draft Agreement at FO 371/14454/28/1331.
 3. Shwadran, op.cit., p.374.

Meanwhile, the Petroleum Department had completed a memorandum setting out the advantages and disadvantages of a change of Britain's general oil lands leasing policy, giving as its conclusion that

the balance of advantage now (lay) in the direction of admitting foreign capital within the Empire on more generous terms than ha(d) been the case in the past. 1.

Suggestions for the basis of future policy were also made, aiming to make it possible for foreign capital to be invested in oil concessions on British territory, while at the same time the British Government would retain certain safeguards which would enable it, when necessary, to exercise some control over the companies' activities. The Admiralty's interests would be safeguarded to some extent by a refinery clause, which was designed to encourage the setting up of refineries on British territory and thus widen the Admiralty's network of supply sources. 2.

The Petroleum Department's memo was acceptable to all Departments except the India Office, which maintained a lone

1. Petroleum Department Memo, "Oil Concessions in British Colonies and British Control of Companies", July 1929.
FO 371/13540/252/4591.

2. The main suggestions included (a) Transfer of leases to be subject to British Government approval; (b) Admission of foreign interests only on a reciprocal basis; (c) Companies to be British-registered, and the majority of employees to be British subjects; (d) At least 50% of the oil obtained to be refined on British territory; (e) British Government right of pre-emption in an emergency.
(Ibid.)

stand against any change of policy applying to India.¹ However, although the Cabinet in October 1930 approved the memo in principle, it was decided that discussion of details was to be reserved until after discussion at the 1930 Imperial Conference.² In the event, however, no such discussion took place at the Conference, and the matter was left in abeyance.³

1. The India Office was concerned because Indian capital was, at that time, backward; if foreign capital were allowed into India, it was feared that it would leave nothing worthwhile for Indian capital (when it had attained strength) to develop. Also, the India Office pointed out, as long as Indians were subject to disabilities with regard to landholding in the United States, it would be difficult to get the Indian legislature to accept the idea of allowing American citizens to acquire rights in India.
Memo on the Granting of Oil Concessions in British India, November 1st 1929 (enclosure in Petroleum Department to Foreign Office, May 13th 1930).
 FO 371/14295/3435/3435.
2. Cabinet Minutes, October 9th 1930.
 CAB 23/65. 59(30)10.
3. (However, the question of British Guiana was resolved by a Cabinet decision to lift the embargo on foreign development in that particular colony.
Cabinet Minutes, December 3rd 1930.
 CAB 23/65. 71(30)6).

The raising of the question of the oil concession in Bahrein had thus resulted in what turned out to be inconclusive discussions on Britain's general oil leasing policy. While the Bahrein issue itself had been satisfactorily resolved, the way had not yet been cleared for the emergence of any definite general policy for application in all cases. Any new case which might arise would, it seemed, still have to be judged entirely on its merits and some agreed policy determined. British oil policy was thus still, in many aspects, very empirical.

II. Kuwait.

Soon after the Bahrein concession question had been resolved, another problem of policy for the British Government came to the fore. The Eastern and General Syndicate had for several years been endeavouring to obtain an oil concession from the Sheikh of Kuwait, and in August 1930 it sent to the Colonial Office a copy of a draft concession it intended to submit to the Sheikh. Included in the draft concession was a clause providing for the transfer of the concession, when obtained, to any other company, under conditions based on those finally agreed to in the Bahrein concession. The Syndicate, in sending this draft, asked
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for an opportunity to discuss the matter with the Colonial Office.

1. Eastern and General Syndicate to Colonial Office, August 19th 1930. FO 371/14483/4914/4914.

It was obvious that the Syndicate desired to transfer any concession which it might obtain to another American company. The British, however, were at first not prepared to acquiesce so easily this time, and were determined instead to use the hold which they had over the Sheikh, by reason of a promise made in 1913 not to grant any concession without the approval of the British Government,^{1.} to its fullest extent. Kuwait was, unlike Bahrein, of great strategic importance in itself, situated as it was at the head of the Gulf, and the prevention of foreign interests from getting a foothold there had long been considered of importance. There was also another difference between the case of Bahrein and that of Kuwait, in that, whereas in the former case a concession had already been granted when the question of transfer arose, in the latter case this was not so. There was thus the possibility that British interests might be willing to compete for the concession and an overt stand against American interests might then be avoided.^{2.}

The British Government's problem appeared to be reasonably easy of solution when it was reported that the Sheikh of Kuwait

1. For the Sheikh's promise see Hurewitz, op.cit., Vol. I, pp.272-273.

2. The status of Kuwait was similar to that of Bahrein. The British Government signed a treaty with the Sheikh of Kuwait in 1899. See D.B.F.P., Series 1A, Vol. I, page 865.

had refused, on his own initiative, to countenance any non-British company holding the concession, and that he had further insisted that the British Control Clause be inserted in any concession which he might grant to the Eastern and General Syndicate.¹ All that the British Government needed to do was to refuse to advise the Sheikh to change his mind; this policy was agreed to by all Departments in December 1930.²

On July 2nd 1931, however, the Sheikh sent a letter to Major Holmes, the Eastern and General Syndicate's representative, which seemed to indicate that the Sheikh was willing to omit the British Control Clause if the British Government would agree to its omission.³ In consequence, the Syndicate then wrote (on August 4th) to the Colonial Office asking whether, in view of the Sheikh's letter, the British Government would waive its

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1. According to the Political Resident, the Sheikh was emphatically against foreign (i.e. non-British) interests coming into his territory, because of the difficulty of dealing with them in the event of trouble (difficulties with British subjects could always be adjusted via the Political Agent).
(Political Resident (Bushire) to Colonial Office, November 9th 1930. FO 371/14484/4914/6630.
 2. See various items of inter-departmental correspondence in FO 371/14484/4914/6630.
 3. A photostat copy of the Sheikh's letter (which was in Arabic) and of a translation into English made by the official translator of the Iraqi Government, is located at FO 371/15277/325/6439. Part of the letter reads (in translation):-
"if you and your Company agree with H.M.'s Government on the said clauses ... and it allows you to omit them, then we shall have another opportunity of discussing matters with you."

objection to the grant of a concession without the British Control Clause. The reply which the Syndicate received, however, was evasive, as the Colonial Office, which had been supplied with conflicting information as to the Sheikh's real attitude, wanted^{1.} to be absolutely certain of the position before committing itself.

At this point the Anglo-Persian Oil Company stepped into the picture. It is a curious fact that, apart from carrying on some half-hearted negotiations with the Sheikh in the early 1920's, that company had up to this point shown very little interest in Kuwait.^{2.} On August 25th 1931, however, the Company informed the Petroleum Department that it considered the prospects of oil existing in Kuwait to be now "perhaps somewhat less remote than ha(d) hitherto been the case", and the Company asked for permission to undertake a survey in the area.^{3.}

1. The Political Resident in the Gulf, for instance, saw the Sheikh's letter as merely a device used by the Sheikh to get rid of the Eastern and General Syndicate's representative for a while. The Sheikh later told the Political Resident that he stood by his earlier declaration that the British Control Clause must be inserted in any concession which he granted. (Political Resident (Bushire) to Colonial Office, November 3rd, 1931. FO 371/15277/325/6260.

2. See various letters, minutes etc. under the following references:-
FO 371/6258/769/12104. FO 371/7717/510/510, 1361, 1444.
FO 371/8941/67/5144. FO 371/8945/121/7959.

3. Anglo-Persian Oil Company to Petroleum Department, August 25th 1931 and Minute by Baxter August 31st 1931.

FO 371/15277/325/4441.

It should be noted here that Kuwait was not in the "Red Line area", so the A.P.O.C. would not be bound to share any concession it gained with the I.P.C. members.

This was very welcome news to the British Government, since it now meant that the Sheikh would have to consider the Anglo-Persian Oil Company's application as well as that of the Syndicate.

The Colonial Office's delay in replying to the Eastern and General Syndicate's letter of August 4th, however, aroused the United States Government to intervene, the Chargé d'Affaires, Atherton, making representations on the subject on December 3rd 1931. In the American view, American interests had the right to participate in the development of Kuwait's oil resources on an equal footing with British interests, and, stated Atherton, the American Government hoped that the Colonial Office would be able to satisfy the Eastern and General Syndicate in the matter of the British Control Clause¹ which, the Syndicate held, was no longer insisted on by the Sheikh.

The question was discussed at inter-Departmental meetings early in 1932, when the policy to be adopted should the Anglo-Persian Oil Company decide, after its survey, not to pursue the matter further was considered. At first both the Colonial Office and the India Office advocated the maintenance of the stand against the entry of American interests into Kuwait. The India Office eventually modified its view after a communication from the Government of India

1. Memo by Oliphant, December 4th 1931. FO 371/15277/325/6011.
F.R.U.S., 1932, II, pp. 1-2.

had declared its belief that "the balance of advantage (lay) in (the) admissibility of American interests", since American capital in the Gulf "(would) make for stability and peace".^{1.} The Colonial Office, however, maintained its stand that the British Control Clause should be retained, while the Foreign Office, worried in case such a line should lead to another bitter Anglo-American oil controversy, urged moderation.^{2.}

Up to this point the Service Departments had not been consulted on the question, but, on being informed of the issues, the Air Ministry and the Admiralty came down in support of the Colonial Office line. At an inter-Departmental meeting on March 11th 1932 one of the Admiralty representatives, Admiral Dreyer, stated that the Admiralty was "seriously perturbed" at the proposal to abandon the British Control Clause, and he stressed the advantages of having an oil source at Kuwait under British control. Oil at Kuwait would be a useful alternative to Abadan, said Dreyer, and it could readily be brought under effective control by naval

1. Government of India, Foreign and Political Department, to India Office, February 25th 1932. FO 371/16001/121/1019.

2. Minute by Roberts, December 30th 1931. FO 371/15277/325/6350.
Memo by Warner, January 1st 1932. FO 371/15277/325/6414.
 See also FO 371/16001/121/261, 496, 647.

(Note: The records give a rather confusing picture of what departmental attitudes actually were. The interpretation given here is an attempt to simplify the issues, and is felt to be, for the purpose of this study, essentially accurate).

forces. "In the event of Russia occupying the Persian oilfields, it would be possible to fall back on Kuwait," he argued. Instead of abandoning the British Control Clause, the Admiralty felt that it ought rather to be strengthened; the conditions as specified in the Bahrein concession were, the Admiralty felt, insufficient to safeguard British interests. ¹.

In combatting some of the Admiralty's arguments, Oliphant (Assistant Under Secretary of State in the Foreign Office) pointed out that there was, anyway, no certainty that there would be any oil at Kuwait, and, as for the position vis-a-vis Russia:

Supposing the Russians occupied the Persian oilfields, His Majesty's Government might well be in a better position if they were associated with the United States Government in the matter than without them. ².

On April 6th, following renewed American approaches, ³ the matter was put to the Cabinet. The Foreign Office view was that a "dog in the manger" attitude would be indefensible, both from the point

1. Record of a meeting at the Foreign Office on March 11th 1932
(dated March 12th 1932) FO 371/16001/121/1347.

2. Ibid.

3. For the series of Anglo-American exchanges on the Kuwait issue up to this point, see F.R.U.S., 1932, II, pp.1-13.

of view of relations with the United States and with regard to British obligations to protect the Sheikh of Kuwait's interests. The Americans should be told, the Foreign Office felt, that the British Government would not insist on a clause confining the concession to British interests, although it would reserve the right to examine any concession to ensure that it was in the Sheikh's best interests. Against this view, the Admiralty insisted that full British control should be ensured by, inter alia, the insertion of a provision that at least 50 per cent of the capital in the company operating the Kuwait concession should be British.^{1.}

A compromise was reached, however, between the two sides. The Petroleum Department had pointed out that approval had been given, in October 1930, to the principle of replacing the British Control Clause by five specific conditions. On the Foreign Office's acceptance of the five conditions for inclusion in the Kuwait concession terms, the Admiralty then agreed to drop its insistence on 50 per cent of the capital being British. The Cabinet therefore decided that, after enquiries had been made as to the Anglo-Persian Oil Company's attitude

1. Cabinet Minutes, April 6th 1932. CAB 23/71. 20(32)6.

2. ((a) Transfer of leases to be subject to British Government approval.
 (b) Admission of foreign interests only on reciprocal basis.
 (c) British registration, and majority of employees to be British.
 (d) At least 50% of oil refined on British territory.
 (e) British Government right of pre-emption).
 (See above).

to the concession, the Americans should be told that the British Government would not insist on a clause confining the Kuwait concession to British interests, but that the actual concession terms as so far drafted would need revision. ^{1.}

The Anglo-Persian Oil Company was not at this time very enthusiastic about Kuwait's oil prospects, and, in fact, Cadman told Oliphant on April 11th 1932 that the Americans were "welcome to what they (could) find there." ^{2.} Nevertheless, the Company persisted in its efforts, and submitted a draft concession to the Sheikh - an action which was now unwelcome to the Foreign Office, which feared further complications with the United States. ^{3.}

In the end the Anglo-American struggle for ^{the} Kuwait oil concession was settled by a compromise arrived at by the rival companies themselves. After negotiations which lasted, intermittently, throughout 1933, the American Company (the Gulf Oil Corporation) and

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1. Cabinet Minutes, April 6th 1932. CAB 23/71. 20(32)6.
The Foreign Office note to the American Charge d'Affaires was sent on April 9th, before the A.P.O.C. had been approached.
Text in F.R.U.S., 1932, II, pp.14-16.
Also: FO 371/16002/121/1733.
 2. Memo by Oliphant, April 11th 1932. FO 371/16002/121/1897.
 3. Wilson (A.P.O.C.) to Dickson (Political Agent, Kuwait)
April 29th 1932.
(see also Foreign Office Minutes. FO 371/16002/121/3589.)

the Anglo-Persian Oil Company agreed to share the concession equally,
 1.
 forming the Kuwait Oil Company for the purpose. On March 5th 1934
 the Kuwait Oil Company signed a Political Agreement with the British
 Government, and obtained a concession from the Sheikh of Kuwait on
 2.
 December 23rd of that year.

The Political Agreement of March 5th 1934 included provisions
 that the Company and any transferee or subsidiary company that might
 be formed should be and remain a British company, registered in the
 British Empire. The concession was not to be transferred without
 the prior consent of the British Government, and in any case was not
 to be held by a company the capital of which was less than fifty
 per cent British. The Company's employees were to be, as far as
 possible, British subjects. In addition, the British Government
 was to have the right of pre-emption of all oil produced in time of
 emergency, and the company was to construct a refinery, if commercial
 3.
 conditions justified it.

This was, in effect a modified British Control Clause,
 incorporating sufficient safeguards to satisfy even the Admiralty.

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1. Shwadran, op. cit., pp. 387-388.
 Stocking, op. cit., pp. 114-116.
 See also:- FO 371/16003/121/6830. FO 371/16835/file 12/various
 papers.
 FO 371/16836/file 12/various papers.
 FO 371/16837/file 12/various papers. FO 371/16840/156/7783.
 FO 371/18905/19/59.
 2. The concession was for 75 years, and covered the whole of Kuwait.
 (Stocking, op. cit., p. 117).
 3. Ninth Report of the Oil Board, October 31st 1934, pages 8-9
 CAB 50/5. O.B. 134.
Sir John Simon (F.O.) to Sir A. Ryan (Jedda) January 5th 1935.
 FO 371/18905/19/59.
 (The fact that the A.P.O.C. had a 50% share under the Gulf Oil -
 A.P.O.C. agreement made it easier to include the proviso about
 50% British capital).

It would not have been possible, however, for the British Government to have secured quite such a satisfactory outcome to the Anglo-American struggle had it not been for the willingness of the two rivals concerned to cooperate. An outright victory for the British Company might have been very welcome to the Admiralty, but it would in all probability have worsened Anglo-American relations in the Middle East - at a time when the American entry into that area was^{1.} beginning in real earnest.

During the time that the struggle over Kuwait was proceeding there was some further discussion on the question of establishing a comprehensive policy for the leasing of oil lands within the British Empire. Although, strictly speaking, Kuwait was not part of that Empire, it was nevertheless a factor in the Foreign Office's attitude towards the broader question of Imperial oil policy, and to some extent it induced the Petroleum Department to continue to take the initiative in this matter. Thus, despite some initial Colonial Office resistance, the efforts of the Foreign Office and the Petroleum Department succeeded in securing some agreement on the question of a change to the more liberal policy advocated in the Petroleum Department's memo of 1930 (see above) coming before the Ottawa Conference of 1932.^{2.}

1. (See Chapter 14, below).

2. Petroleum Department to Colonial Office, May 23rd 1932
and Foreign Office Minutes, (June 1932). FO 371/15881/3165/3165.
Petroleum Department to Dominions Office, August 12th 1932
 FO 371/15881/3165/5110.

In the event, however, the matter was never raised at the Ottawa Conference. Again the matter fell into abeyance, and the Empire's oil leasing policy remained the untidy patchwork it had always been. ¹.

Conclusions

On the question of a comprehensive policy for the Empire with regard to oil leases, the bar to progress was not only the conflict between the British Government departments on the question - to some extent that had been resolved in 1930 - but it was the need to get the cooperation of the rest of the Empire on which the matter foundered. This proved to be difficult not because of any intransigence on the part of the Empire's constituent units - although certainly objections could have been expected from India - but because of the difficulty of getting the question discussed at all under the pressure of other more important business.

Perhaps, as seems thus to be implied, the question of having a comprehensive oil leasing policy for the Empire was not really very important. Nevertheless, as the haphazard leasing policy so far

1. In July 1936 it was announced in Parliament that restrictions on foreign companies prospecting in British colonies would be removed, subject to certain restrictions, as from September 1st 1938. By the outbreak of the Second World War, however, there was still no uniform policy throughout the Empire as a whole. (Parliamentary Debates, (H. of C) 5th Ser., Vol. 314 (1935-6) cols. 1407-1409. (See also FO 371/16613/466/1897. FO 371/19833/file 629/various papers.)

pursued had shown itself incapable of significantly reducing the Empire's dependence on outside oil sources, the more liberal policy proposed by the Petroleum Department could hardly have made matters worse. It might even have produced some significant improvement.

The Empire seemed incapable of producing more than a small
1. amount of oil. At the same time, owing to financial stringency, the Admiralty could not secure (as noted in Chapter 2) the full oil reserves that it needed. Surely, therefore, the Admiralty reasoned, whatever oil was likely to be found on British controlled territory should be made secure by guaranteeing its control by British interests. In the cases reviewed in this chapter, however, the Admiralty's desiderata could only have been met at the cost of a worsening of relations with the United States, and, in the end, some compromise had to be reached.

The British struggle for Middle Eastern oil was not merely a

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1. Oil production on British controlled territory in 1932 was as follows:-

	<u>metric tons</u>
Trinidad	1,406,000
India	1,239,000
Sarawak	527,000
Egypt	271,000
Canada	134,000
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	3,577,000
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(If Persia (6,549,000) included, grand total = 10,126,000 metric tons). Not all of this would be available for the Admiralty, of course, since, in particular, the Indian and Canadian production was completely absorbed by local requirements.

(Figures from Dunstan, The Science of Petroleum, Vol. I, pp.22-23).

struggle against the other different interested nations, but it was also an internal struggle of policies, and even of ideals. In the conflict between the Admiralty and the Foreign Office, for example, one might perhaps see glimpses of a wider conflict - a conflict between the traditional concept of Britain as a dominant power in the world and the more realistic concept of Britain in slow decline from dominance in the changed situation of the Twentieth Century. To the Admiralty, as long as the Fleet was in being and obtained its desiderata, Britain could still dominate any situation likely to arise. To the Foreign Office, however, this was no longer true, and they could at least vaguely discern that the world was no longer for Britain what it had once appeared to be.

CHAPTER 14

SUMMARY AND CONCLUSIONS

In 1931 the United States Government made approaches to Britain with the aim of securing equal treatment for American nationals regarding applications for an oil concession in the area of Iraq^{1.} not covered by the Iraq Petroleum Company's revised concession. For various reasons, however, the Iraq Government preferred to negotiate^{2.} with the B.O.D. Company rather than with any other interest, and on April 20th 1932 it granted to the B.O.D. Company a concession for an area covering the vilayets of Mosul and Baghdad west of the river Tigris^{3.} and north of the 33rd parallel. This was the end of Anglo-American exchanges on the question of an "Open Door" for American oil interests in Iraq.

On May 31st 1932 oil was struck in quantity on Bahrein island, and, moreover, the oil was of good quality. This gave added

1. F.R.U.S., 1931, II, pp. 604-611.

2. The Iraq Government was worried in case rejection of the B.O.D. Company's offer would result in Italian opposition to Iraq's entry into the League of Nations. (The B.O.D. Company had contained a strong Italian element since August 1929.)
Minute by Sterndale Bennett, February 12th 1932. FO 371/16042/250/637.

3. Shwadran, op. cit., p. 249.
 A copy of the text of the concession is located at FO 371/16042/250/2218.
 See the Map at page 362.

incentive for companies to consider seriously the possibility that the whole of the Arabian east coast might contain considerable deposits of marketable oil. In the resultant struggle for concessions the Americans came off best, and their entry into the Middle East oil situation, hitherto restricted by having to compromise in one form or another with British interests, began in earnest.

How far had Britain's oil policy in the Middle East been successful up to this point?

In 1919 Britain had faced the problem of securing for the future sufficient supplies of the now demonstrably vital commodity, oil. The British Empire's oil resources were minimal, and therefore, in order to reduce her dependence on wholly foreign sources, Britain had sought to ensure control of the (as yet unproved) oil resources of the Middle East, an area in which, primarily for other reasons than oil, she had established herself.¹ The methods used by British Government officials to achieve this aim, however, were highly empirical, and were designed rather to meet immediate, pressing problems than to secure any carefully formulated long-term aims. Nevertheless, haphazard as such methods might appear, there can be little doubt that they were the only ones which were at all practicable in the political circumstances of the

1. The Middle East had long been important to Britain, since it lay astride the route to India. Before the First World War Britain had generally supported Turkey against foreign, particularly Russian, encroachment on the area, supplementing this policy by the extension of British influence into Persia and the Gulf, Aden, etc. With the collapse of the Turkish Empire in 1918, Britain considered it necessary to extend her influence and physical presence into the power vacuum left by this collapse - primarily to protect her lifeline with India and Australasia.

time.

By 1932 Britain did not dominate the Middle Eastern oil situation to anything like the extent which had seemed likely in the immediate aftermath of the First World War. The immediate post-war dreams of "permanent British control" of Iraqi oil had quickly vanished under the dual onslaught of American and French claims - notwithstanding the British Government's early, and rather confused, plans for, inter alia, exploitation by State enterprise. In 1932, however, British interests still retained the largest single share in the Iraq Petroleum Company, which was a registered British Company. Moreover, the fact that that Company still remained in existence as a viable unit, after all the international bickering over participation, the rights of Gulbenkian, the difficult pipeline issues, and despite the complications involved in the Mosul question, represented, to some extent, a success for Britain's oil policy.

That the Iraq Petroleum Company gained the concession it sought was to no small extent attributable to British Government policy. British Government support for the Company's by no means indisputable claims in the immediate post-war years was essential to the Company's survival, and later was of considerable importance in the concession negotiations of 1923-25. By avoiding direct intervention, except on occasions when intervention was considered to be absolutely necessary to prevent a breakdown, the British Government managed to steer those negotiations to a conclusion.

Here, in so far as Britain definitely desired that the Company should be granted the concession, this was a definite success. British policy was similarly successful in the negotiations leading up to the grant of the Revised Concession of 1931, despite the apparent handicap Britain incurred by her pledge to France not to intervene between Iraq and the Company with regard to the pipeline alignment.^{1.}

However this might be, since Britain had at this time certain definite obligations to protect Iraq's interests in these negotiations, the verdict of success for British policy must be qualified somewhat. Britain allowed the Iraq Petroleum Company to conclude negotiations in 1925 without providing for Iraqi participation in the Company, and, in 1931, she (possibly unwittingly) allowed the Company to gain control of practically all Iraq's oil-bearing lands. Had the Iraq Petroleum Company been a purely British concern, this last qualification of the British Government's success might have been considered as enhancing that success (in the sphere of oil policy), but, as has been pointed out in an earlier chapter, the multi-national character of the Company makes it a debateable point whether Britain did not ^{stand to} gain more from Iraqi ^{2.} gains in the concession negotiations than from those of the Company.

1. See Chapter 10, Section V.

2. See page 247, footnote 2.

Although in 1932 Britain's legal opportunities to control Iraqi policy were somewhat lessened by the termination of the Mandate, in practice this made little difference. The British had never, in any case, wholly dominated the Iraq Government's actions (after 1922), and such control as they had maintained in the period 1922-32 was not fundamentally altered by Iraq's admission into the League of Nations, since Iraq was still bound to Britain by a close treaty of alliance.^{1.} In the last resort, therefore, a certain strategic control of Iraqi oil could be secured, which was important now that Iraqi oil was no longer merely a theoretical possibility, but a proved fact, and a pipeline to transport it to the Mediterranean, half of it going directly to a port under British control, was in process of construction.^{2.} If, as was seeming rather more likely at this time than hitherto, a war with Japan were to occur, the British navy would have a ~~guaranteed~~ source of oil, additional to Persia, directly on the route to the East.

In this respect, then, British oil policy had achieved one of its prime aims in the sphere of Imperial strategy. However, as pointed out earlier,^{3.} it is a matter for conjecture whether this

1. A Treaty of Preferential Alliance between Britain and Iraq, signed on June 30th 1930, came into operation on Iraq's admission to League of Nations membership. (Text: Hurewitz, op.cit., Vol. II, pp. 178-181).

2. The pipeline was completed, and oil put through it, in 1934.

3. Chapter 11, Section IV.

aim would not have been achieved equally well, and much more smoothly, without the whole rather farcical business of the Anglo-French controversy over the pipeline and railway alignment. Moreover, if it really was a vital British interest that the pipeline should terminate in British, not French, territory (and the Labour Government of 1929-31 obviously had doubts on this score) then, in the event, British interests were served better by her protégé, Iraq, than by the British Government.^{1.}

In Persia, British interests had maintained their hold on the country's oil resources, which had not belied their early promise but instead had developed into a very important source of oil for Britain and her Empire. The repeated attempts by the Royal Dutch-Shell interests to gain control of Persian oil, via the companies' amalgamation proposals, all came to nothing, and the British Government wisely clung to their much coveted shares in the Anglo-Persian Oil Company, thereby not only making financial gains,^{2.} but also ensuring the maintenance of the Company as an entirely British concern. This last consideration was important, it should be noted, not only for Britain's interest in Persian oil, but also for Britain's interest in oil elsewhere, especially in Iraq.^{3.}

1. See Chapter 11.

2. In December 1932 it was stated in Parliament that the British Government had received a total of £9,997,344 in dividends and interest up to that point. (Parliamentary Debates (H of C) 5th Ser., Vol. 273, (1932-33) Col. 8.) In addition, of course, the Admiralty must have made a considerable saving on expenditure on fuel oil under the 1914 contract (for example, rebate due in 1921 was £153,530; by the time of the revised Admiralty-APOC agreement of 1928 (Chapter 4) the annual rebate had risen to £245,000). (Murray (Admiralty) to Secretary to H.M. Treasury, January 26th 1928). ADM116/2318.C. CP.3730/28.

3. Since, of course, the A.P.O.C. had the largest stake in the I.P.C. (Also, the A.P.O.C. had oil in the "Transferred Territories")

The struggle to gain the North Persian oil concession for the Anglo-Persian Oil Company ended in failure, but, on the other hand, no other interest succeeded there either. However, in view of the inevitable Russian hostility which would have been engendered had the Anglo-Persian Oil Company succeeded in its claim, it is questionable whether it would have been in the best interests of the British Government (or the Company) to have secured consummation of that claim. Oil in such an area in any case was of very little, if any, strategic value to the British Empire, while^{1.} its purely commercial exploitation was fraught with difficulties.

1. See pp. 194-195 above.

In 1924 Britain had lost an ally, the Sheikh of Mohammerah, as a consequence of the growth in power of the Persian Government, and this had created a gap in Britain's scheme for defence of the Persian oilfields. This gap was more than filled by the Persian Government itself, however, but the fact that Persia had now arisen from her former decadence, and could no longer be dominated by Britain, meant a weakening of Britain's hold in this area. Nevertheless, when faced by the Persian Government's challenge in cancelling the D'Arcy concession, the British Government's policy was firm, and Britain secured not only a rapid settlement of the matter, but, also, she prevented any permanent loss of her prestige in the Middle East.

Elsewhere British oil policy had also achieved a certain amount of success. True, Britain had been forced to allow American interests into Bahrein, and, shortly after 1932, American interests secured a footing in Kuwait, but in neither of those areas were American interests allowed free rein, and, in any case, Britain still maintained her traditional influence over the rulers of those territories.

Renewed interest in eastern Arabia after the Bahrein oil strike of 1932 led to British anxiety in case American interests should attempt to gain an oil concession in the Qatar peninsula, thus, as in the case of Bahrein and Kuwait, introducing a foreign element into the chain of British protected Gulf sheikhdoms. In the end British policy ensured that the concession went to the Anglo-Persian Oil Company (in 1935), whence it was transferred to an Iraq Petroleum

Company subsidiary (under the Red Line Agreement). British interests were secured by means of a political agreement similar to that
 1.
 concluded in the case of Kuwait.

Other areas in the Middle East where oil concessions were of some significance during the period ending in 1932 were Egypt and the Farsan Islands. In the first of these, Egypt, although oil production had started in 1911 it never attained an annual figure of much more than a quarter of a million tons, all of it controlled by a Royal
 2.
 Dutch-Shell subsidiary. Britain, by retaining control of Egypt, retained physical control of this production also.

The Farsan Islands were of transient importance around 1927, when a Shell subsidiary drilled, unsuccessfully, for oil, and faced, amongst its challenges, attempts by Italian interests to establish themselves there. Some Anglo-Italian exchanges took place on the subject, Britain being worried over possible Italian naval developments in the Red Sea area, but the whole matter subsided in a

1. Copies of the Qatar Oil Concession Agreement of May 17th 1935, and of the Political Agreement between the Anglo-Persian Oil Company and the British Government, June 5th 1935, are located at FO 371/19967/35/1044.

(It should be noted that, in the case of Qatar, purely British interests suffered by reason of the application of the I.P.C. Red Line Agreement, since British interests held only part of the I.P.C. shareholding, as opposed to the purely British holding in the A.P.O.C.).

2. Longrigg, Oil in the Middle East, pp. 22-24, 94-97.

comparatively short time, with no impairment to British interests.^{1.}

In the Arabian territories of Ibn Saud the period up to 1932 did not see any outstanding developments regarding oil concessions, although there was a certain amount of activity in the area, notably by the Eastern and General Syndicate.^{2.} Until 1932 it could be said that British desiderata were met in this area in so far as no foreign oil interest had established itself there.

The picture up to 1932 is thus one of reasonable success for Britain's oil policy in the Middle East. While Britain had not achieved all she would have liked to have achieved, she had nevertheless suffered no disastrous defeats and, moreover, she had an interest of one sort or another in every ton of oil derived from the area.

This picture of success is true, however, only up to a certain point. In the greater part of Arabia Britain's hold on the situation had become very tenuous. Whereas in 1919 the fragmented political state of Arabia had allowed Britain to exert a strong influence on the actions of the several rulers, the later growth of the power of Ibn Saud, as he gradually extended his control over the whole peninsula, led to a considerable weakening of British influence there. By the time of

1. D.B.F.P., Series 1A, Vol.II, pp.841-862.

Cabinet Minutes July 21st 1926, CAB 23/53. 47(26)1.

Report by Chiefs of Staff Sub Committee "Position in S.W.Arabia", November 8th 1926 CAB 24/182. CP.377(26).

Also FO 371/1147/2660/4258. FO 371/13001/65/3851.

2. Colonial Office Memo on the Hasa, Kuwait, and Neutral Zone Concessions, April 1933. FO 371/16870/487/2147.

3. By the Treaty of Jedda, May 20th 1927, the British Government recognized "the complete and absolute independence of the dominions of His Majesty the King of the Hejaz and of Nejd and its Dependancies" (Article 1). Text in Hurewitz, op.cit., Vol. II, pp.149-150.

the formal unification of Hedjaz and Nejd into the Kingdom of Saudi Arabia (September 1932), what influence Britain still had over Ibn Saud was certainly not sufficient to enable the British Government even to try to secure the inclusion of safeguards for British interests in any concession which he might grant in his territory. Thus it was to be a straight fight in 1933 between American interests and the Iraq Petroleum Company in bidding for a concession for the Hasa province; the Americans' greater readiness to furnish Ibn Saud with the gold which he demanded was to be decisive,^{1.} and a purely American company, unfettered by any semblance of a British Control Clause, was thus able to secure what subsequently turned out to be one of the richest oilfields in the Middle East.

Britain's success in her oil policy in the period ending in 1932 thus does not seem quite so clear cut when viewed in the light of the situation which was to obtain immediately afterwards. However, this does not alter the fact that, overall, Britain's Middle Eastern oil policy was reasonably successful. Why was this so?

Britain's Middle Eastern oil policy obviously could not have succeeded without the broad basis of political influence which Britain had long maintained in the area, and which was enhanced during the

1. Shwadran, op. cit., p. 290 (and note 11 thereon).
Longrigg, Oil in the Middle East, pp. 107-108.

First World War by force of arms. This was especially true of Iraq, where the British presence after 1918 was of fundamental importance in the oil question, ensuring not only that Mosul, with all its rich oil deposits, remained in Iraq, but also enabling Britain to push forward with some confidence the rather dubious claims of the Turkish Petroleum Company. The problem of securing Iraqi oil for a company in which British interests were strong was difficult even with the British Government as mandatory for Iraq, for, as the concession negotiations show, the Iraqi Government was no mere tool of the British. Without such political influence on the situation, the outcome for British interests of the international struggle for Iraqi oil might well have been defeat.

In Persia, too, Britain's influence was an important factor in the fortunes of the Anglo-Persian Oil Company. Here, however, other forces were also at work. Traditional British influence tended, whilst acting as a support for the Company, to attract Persian hostility also. In addition, the knowledge that British Government support would always be forthcoming in an emergency might well have made the Company far too complacent in its dealings with the Persian Government, an attitude which could have contributed to the development of the Anglo-Persian crisis of November 1932.

Had Egypt developed into a prolific source of oil, the British presence there would, of course, have guaranteed British control. In the Persian Gulf, too, Britain's political influence ensured that the coastal sheikhdoms did not dispose of any likely oil concessions without the express concurrence of the British Government. As has

1. In 1922 the India Office requested the Government of India to instruct the Political Resident at Bushire to obtain from the Trucial Coast sheikhs promises regarding oil concessions similar to those given (in 1914) by the Sheikhs of Bahrein and Kuwait. (India Office to Viceroy, India, February 4th 1932. FO 371/7717/510/1361.) (For some of the agreements made, see FO 371/7723/6279/6279, 6705. FO 371/7815/7/3949).

been pointed out, however, the rise of Ibn Saud to a status which precluded the dominance of British influence over his actions meant that Britain's interests would not necessarily be safeguarded in any oil concession granted in Saudi Arabia.

An extremely important aspect of the British Government's oil policy was that Government's close relationship not only with the Anglo-Persian Oil Company but, notwithstanding its international composition, with the Turkish (later Iraq) Petroleum Company. The key figure in both these relationships was Sir John Cadman, who, long after leaving Government service, maintained close contact with such men as Oliphant, an important figure in the determination of the Foreign Office's attitude to oil questions, with Baldwin, and with other Government officials. Cadman was, in a way, the British Government's "Trojan Horse" in both the Anglo-Persian and the Iraq Petroleum Companies. It was, significantly, at the British Government's suggestion that Cadman was first appointed to the Anglo-Persian Oil Company Board and, later, designated as Chairman to succeed Sir Charles Greenway¹. The British Government no doubt also promoted Cadman's candidature for the post of Chairman of the Iraq Petroleum Company.

With Cadman in such a key position, British Government influence in two of the most important oil companies engaged in the Middle East

1. See Chapter 4, above.

was as high as it could be without direct Government interference. Without access to Cadman's own personal records, however, it is impossible to assess exactly what effect this had on the situation, but it was no doubt considerable, as the discussion of the pipeline controversy has indicated. Cadman's influence must therefore be considered to have been an important factor in the general success of Britain's oil policy during the period ending in 1932.

As has been seen in this study, Britain's oil policy was often confused, indecisive, and liable to swift changes of front. The picture conjured up by some writers of the British Government having followed some deeply laid, highly developed plan to gain control of all oil sources within reach can thus be seen to have been very far
 1. from the truth. As a general background influence on Government policy the growing importance of oil, both in the British economy and, particularly, as a strategic material vital to the navy, was of course strong, but it was by no means sufficient to override other broader considerations. Thus, for instance, Admiralty clamour for a highly restrictive policy against American entry into Kuwait, and the move by some Government Departments to secure, at all costs, a Haifa alignment for the Iraq-Mediterranean pipeline, ignoring likely

1. It should be noted that there was no particular difference in oil policy between the Conservative and Labour governments of this period. The latter governments were perhaps rather less willing to sanction financial expenditure on strategic oil projects than were the former, but any such difference was only marginal and cannot be said greatly to have affected any particular issue with which this study has been concerned (ignoring the Singapore base issue in 1924, which was not primarily an oil question).

consequential damage to Britain's international relations, did not, in the end, decide British policy. Instead, British policy was generally determined by consideration of just how far Britain could go along the lines demanded by the more militant departments (usually the Admiralty, often supported by the other Service Departments, and sometimes by the Colonial Office, the India Office and the Petroleum Department) without incurring too much hostility from the other important Powers concerned. Thus, Britain's oil policy was a compromise between two opposed desiderata, namely, that Britain's strategic oil interests should be safeguarded, and that satisfactory Anglo-American and Anglo-French relations should be maintained. Alongside this, of course, considerations of financial economy, and the need to keep on good terms with Middle Eastern rulers, also played a part.

The very flexibility which British policy possessed in consequence of its diversity of origin was one reason for its success. Had it been more rigid, determined less by empirical methods and by internal, often highly controversial, discussion than by any previously formulated overall plan, British oil policy might well have alienated the two Powers who counted most in the sphere of Middle East oil, France and the United States. Compromise with those two Powers was absolutely necessary in the post-1918 era, and, for the British Government, compromise proved to be the key to success.

There remains, however, one aspect of Britain's Middle Eastern oil policy not so far considered in this assessment. In 1932 the British navy's oil reserves were still very far behind the originally laid down schedule for completion, and neither the Royal Air Force

nor the Army had any petrol or other oil product reserves which related even remotely to probable war-time needs. Although Britain had learned the lesson of oil's importance to the modern nation at war in the bitter conflict of 1914-1918, nevertheless, fourteen years after this conflict had ended, she still gambled with her chances of survival. Without adequate oil reserves in the places where they were needed, Britain, even with the whole of Middle Eastern oil at her command, would still have run the risk of a disastrous defeat in the event of war. By running that risk, the British Government rendered meaningless much of its Middle Eastern oil policy.

Before leaving this study, it may be useful to consider very briefly the question of how far oil considerations affected Britain's international relations and general policy in the Middle East during the period covered, although, it is emphasised, no systematic attempt has been made in this study to place Britain's oil policy in that context, and what follows here is therefore somewhat conjectural.

In view of the manifest importance of oil during the First World War, it can be inferred that oil considerations played a greater part in Britain's international relations and general policy in the Middle East than they had done in pre-war years. Nevertheless, their influence should not be exaggerated. Naturally the presence, or suspected presence, of oil in the Middle East enhanced the

importance of that area in British eyes - but Britain would still have been extremely interested in the Middle East, for reasons of general Imperial strategy, had the area been thought to be completely barren of oil. In this writer's opinion the history of British influence in the Middle East during the period 1919 to 1932 would not have been different in any major aspect had oil not been involved at all. For example, Britain would still have gone into, and remained in Iraq, and would still have secured Mosul for her protégé, even had oil been of no consideration whatsoever.

Nevertheless, this does not mean that oil considerations exerted no influence. On the contrary, such considerations tended to make Britain's relations in the Middle East with, in particular, France and the United States, even more important than they otherwise would have been. Oil considerations also enhanced the importance for Britain of maintaining good relations with Persia and the other Middle Eastern states.

As noted in Chapter 3, Britain's relations with the United States in the years immediately following the Armistice were embittered by, amongst other things, the question of Mesopotamian oil. Yet, the advent of oil as a vitally important strategic material made the maintenance of good relations with the United States, as the world's major source of oil, even more necessary than hitherto to Britain - a fact which was underlined

when Britain paused to contemplate the possible danger to her Empire
 1.
 from the growing might of Japan.

Britain's relations with France in the Middle East were especially important, with or without any considerations of oil. Certainly the British desire for Mosul was partly due to knowledge of the vilayet's possible oil potentialities, but, oil or no oil, the British would have done their best to overturn the Sykes-Picot Agreement, which awarded Mosul to France, as soon as they had
 2.
 cleared out the Turks from the vilayet late in 1918. Throughout the period 1919 to 1932 Anglo-French jealousy over oil was a minor source of friction in the mutual relations of the two countries; only during the bitter Anglo-French pipeline controversy over Cadman's letter of November 1928, however, did it threaten to become anything
 3.
 more serious.

Britain's interest in Persian oil naturally lent added importance not only to Anglo-Persian relations, but also to Anglo-Russian relations. Yet, notwithstanding Britain's dependence on Persian oil in the event of a Far Eastern War, Persian oil was by no means the only reason for avoiding Anglo-Russian friction in Persia. As ever, Britain sought to avoid anything which might tend to threaten the security of her prime Imperial possession, India.

1. See Chapter 2, above.

2. See Chapter 3, above.

3. Chapter 10, above.

Thus, long before oil had come on the scene, Britain's policy in Persia had been aimed at keeping Russian influence to a minimum; the advent of Persian oil merely added a further reason for maintaining that traditional policy.

Britain's policy in the Persian Gulf and in the Arabian Peninsula had long been aimed at preventing the growth of any foreign influence there. That policy did not change with the coming of the oil age except that, as with other areas, oil considerations tended to reinforce the need for such a policy. Soon, however, the area was to be invaded by American oil concessionaires, events which indicated not so much that Britain's policy in the area had changed, but that Britain's ability to enforce that policy had, and, moreover, that Britain's dominance of the Middle East was visibly coming to an end.

APPENDIX I.

GREAT BRITAIN: Estimated requirements of Petroleum Products, April 1st 1918 to March 31st 1919.

(Figures in tons)

SERVICE FOR WHICH REQUIRED	FUEL OIL	GAS OIL	KEROSENE	AVIATION SPIRIT	MOTOR TRANS-PORT SPIRIT	OTHER SPIRIT	LUBRICATING OIL	TOTAL
Army	-	-	35,000	119,000	266,000	21,600	35,000	476,600
Navy	3,820,000	-	11,000	11,500	33,000	-	17,700	3,893,200
Civil Purposes	-	142,500	507,500	-	222,000	-	295,300	1,167,300
Additions to reserves	211,000	-	60,000	-	27,000	-	-	298,500
TOTAL	4,031,500	142,500	613,500	130,500	548,000	21,600	348,000	5,835,600

NOTE These figures make provision for supplying the requirements of the British Army in France, but do not include their requirements in other theatres of war.

SOURCES OF SUPPLY

The United States was expected to supply 2,714,500 tons of fuel oil, 130,000 tons of gas oil, 544,000 tons of kerosine, all the aviation spirit, 430,600 tons of motor spirit, and 303,000 tons of lubricating oil. Total: 4,252,600 tons from U.S.A. (73% of total from all sources).

Persia was expected to supply 540,000 tons of fuel oil.

Home sources were expected to supply 216,000 tons of fuel oil.

It was expected that the remaining requirements would be met by supplies from Mexico (511,500), Trinidad (161,000), Borneo and Sumatra (147,500) and Burma (7,000).

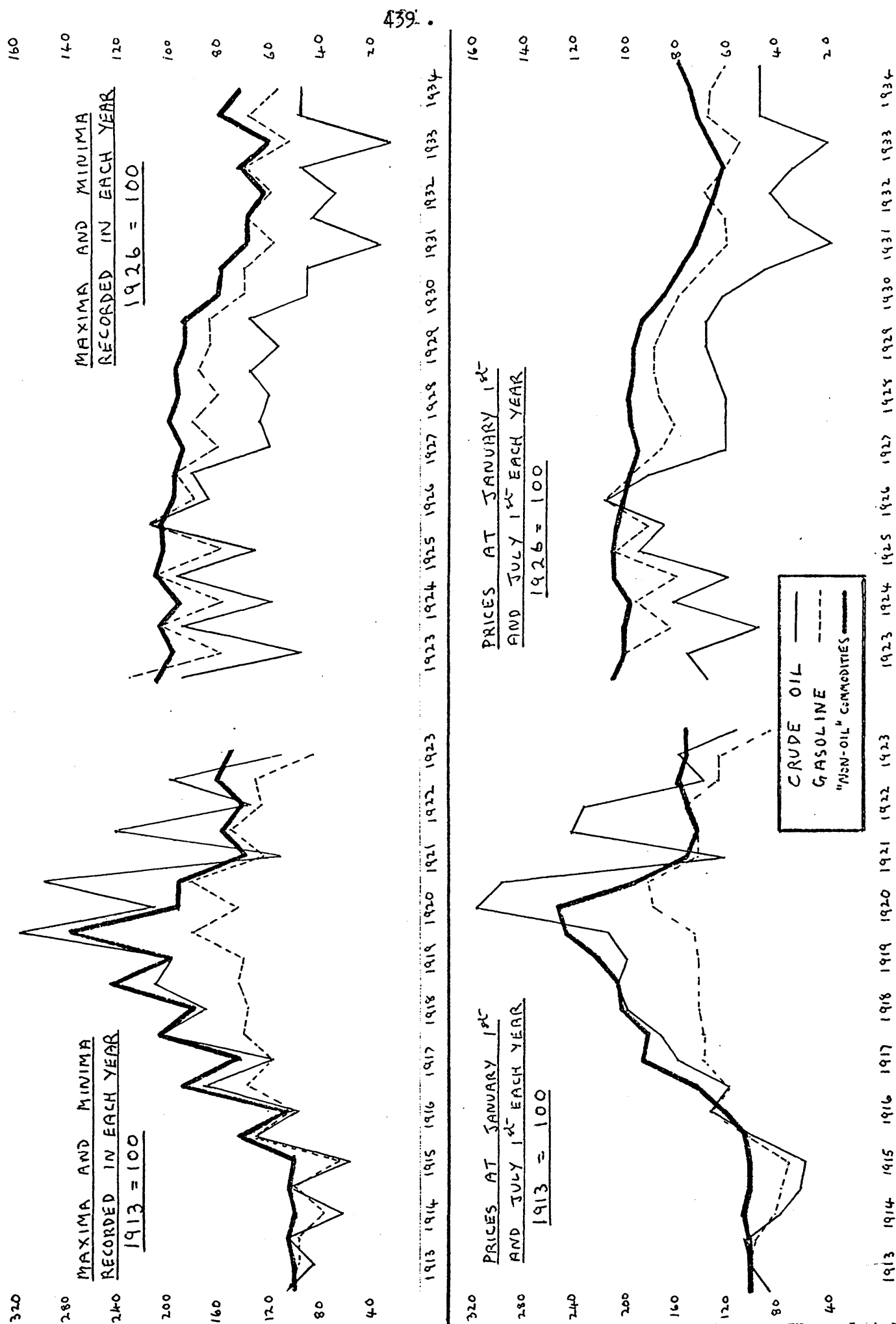
SOURCE: Great Britain, Department of Trade and Industry, Minutes of the First Formal Session of the Inter-Allied Petroleum Conference, Paris, May 6th - May 7th 1918, Appendix I, p. 8. POWER 33/8.

APPENDIX II.

Principal producers of crude oil 1913-1934.
(Figures in millions of metric tons.)

YEAR	TOTAL	U.S.A.	MEXICO	VENEZUELA	RUSSIA	RUMANIA	DUTCH E.	INDIES	PERSIA
1913	53.1	34.0	3.9	-	8.6	1.8	1.5		0.2
1914	56.2	36.4	3.9	-	9.1	1.8	1.6		0.4
1915	59.6	38.5	4.9	-	9.4	1.6	1.6		0.4
1916	63.9	41.2	6.1	-	9.9	0.9	1.7		0.6
1917	70.5	45.9	8.3	0.02	9.5	0.7	1.7		0.8
1918	71.3	48.8	9.6	0.05	5.5	1.0	1.8		1.1
1919	77.3	51.8	13.1	0.05	4.4	0.9	2.2		1.3
1920	96.9	60.7	23.6	0.07	3.8	1.1	2.4		1.7
1921	107.6	64.7	29.0	0.2	4.0	1.2	2.4		2.2
1922	120.0	76.4	27.3	0.3	4.9	1.4	2.4		2.8
1923	141.6	100.4	22.4	0.6	5.4	1.5	2.8		3.6
1924	141.2	98.0	21.0	1.3	6.3	1.8	2.9		4.2
1925	148.4	104.6	17.3	3.0	7.3	2.3	3.1		4.6
1926	152.8	106.5	13.6	5.2	8.9	3.2	3.0		4.8
1927	174.0	123.5	9.6	8.8	10.6	3.7	3.7		5.3
1928	183.0	123.6	7.5	15.3	11.6	4.3	4.3		5.7
1929	205.1	138.1	6.7	19.8	13.7	4.8	5.2		5.5
1930	196.5	123.1	5.9	20.2	18.6	5.7	5.5		6.0
1931	189.5	116.7	4.9	17.2	22.3	6.7	4.7		5.8
1932	180.9	107.6	4.9	17.1	21.5	7.3	4.9		6.5
1933	197.0	122.5	5.1	17.3	21.4	7.4	5.4		7.2
1934	208.4	122.9	5.7	20.0	24.2	8.5	5.9		7.7

Source: A.E. Dunstan (ed.), The Science of Petroleum, Vol. I, pp. 22-23.



APPENDIX III.

AMERICAN OIL PRICES 1913-1934.

Source: Figures for the graphs are derived from a graph in:-
Waley-Cohen, "Economics of the Petroleum Industry," in
Institution of Petroleum Technologists, Petroleum: Twenty-
five Years' Retrospect, p. 24.

BIBLIOGRAPHICAL NOTE

As mentioned in the Foreword, the most important source of information for this study has been the British Foreign Office papers in the Public Record Office, London. In addition to Foreign Office papers, Cabinet records, including the records of the Committee of Imperial Defence and its sub-committees, have also been invaluable. Admiralty documents have been found useful, while certain Treasury files reveal aspects of Government-Company relations on which the other Departments' papers are silent. The Colonial Office papers were, on consultation, rather disappointing, largely because I had already gleaned most of the information which they contained from the Foreign Office papers.

The files of the Petroleum Department of the Board of Trade provide several useful items of information not obtainable elsewhere. It should be noted, however, that a few of the more interesting files in this class (to judge by their titles) are still "closed" for 50 years or more.

The records of the oil companies are inaccessible to the academic researcher. At one time there seemed some prospect of my gaining access to the London records of the "Shell" company, but, in the end, after several months of delay, I had to abandon hope of this. A particularly disappointing aspect of my enquiries in this field, also, is the knowledge that there is in existence a book, prepared by Brigadier Longrigg, using the Iraq Petroleum Company's private archives, which deals with the history of the

Turkish/Iraq Petroleum Company during the period covered by this study, but which book the Company will not allow to be read by anyone other than Company staff. It should be mentioned, however, that a member of the Iraq Petroleum Company, Mr. I.G. Macpherson, undertook some research on my behalf into his company's archives, but unfortunately he found the material therein to be too scanty to provide answers to the several detailed points which I had put to him. Similarly, Dr. R.W. Ferrier, of the British Petroleum Company, endeavoured to furnish me with answers to several detailed queries which I had made.

Attempts to gain information from the personal records of various prominent people involved in oil matters during the period of interest have been almost a complete failure. The papers of the person who was of most importance from the point of view of this study, Sir John Cadman, were destroyed some years before I began my research. Similarly, most of my enquiries concerning the papers of other prominent figures have elicited replies stating either that the material that I wanted had long since been destroyed, or that, as in the case of Lord Wester Wemyss, the still extant material did not contain anything relevant to the subject of my study. In the case of the Gulbenkian papers, I was informed that access to them could not be allowed on account of their confidential nature. Where access to private papers has proved possible - for example, to the papers of Sir L. Oliphant (of the Foreign Office), Sir A. Chamberlain, and others, which are housed in the Public Record Office - these have proved to contain little or nothing of value. Similarly, although Mr. A.J.P. Taylor was kind enough to see if there

was anything of value to my studies in the Beaverbrook papers, and allowed me access to the papers of Lloyd George and Bonar Law, little of particular interest emerged.

Much useful information on the American attitude and viewpoint has been published, in the "Foreign Relations of the United States" series of documents, and in the Staff Report to the Federal Trade Commission on "The International Petroleum Cartel". In addition, copies of unpublished State Department files are available, on microfilm, from the U.S. National Archives and Records Service, Washington. Of particular relevance is a file on the Turkish Petroleum Company, which, however, naturally contains much more of importance for a study of American oil policy than of British.

French Government archives of relevance to this study are still closed (although some of the earlier files were initially due to be opened this year - 1973 - and the rest by 1975). As noted in the Foreword, this gap cannot be satisfactorily filled from French published sources. Although such documents as are published by the French Government provide useful background reading, they do not contain much information of direct relevance to the rather narrow issues involved in this study.¹ Similarly, secondary works from

1. It is unfortunate that the comprehensive series of "Documents Diplomatiques" on the origins of the Second World War, published by the Ministère des Affaires Étrangères, only begins at the year 1932.

French sources provide little concrete and reliable information not already available elsewhere. Even the best of these sources - books by Faure, by Labarrière, and the biography of Ernest Mercier (the principal French representative in the Turkish Petroleum Company) by Kuisel - deal with matters of relevance to this study in far too general a way to be of real use. Such sources do, nevertheless, sometimes provide a different outlook on matters dealt with elsewhere from a purely British point of view.

Of the secondary works of importance to this study, two books in particular stand out. The first is B. Shwadrah's "The Middle East, Oil and the Great Powers", an extremely useful book which helped me to clarify the issues involved in the very early stages of my work on this thesis. One should beware of Shwadrans' interpretations of British Government policy, however. The second outstanding book is by Brigadier S.H. Longrigg, "Oil in the Middle East", which sets out to tell the broad story of Middle East oil from the beginning to the present day. This work is less useful than Shwadrans' for the political aspects of this story, but it has especial value for its clear account of the actual development of the oil sources, prospecting etc.

Commercial journals and newspapers have not provided much useful information relating to the political aspects of this study, since I have been very wary of accepting as reliable such information as they contained. The "Economist", and the Journal of the Institute of Petroleum, however, have been extremely useful for information of an economic or technical nature.

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